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Operating model for global pricing governance

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<p>The objective of this thesis was to build an operating model for global pricing governance for the case company.</p> <p>The case company is a Finnish listed trading sector company operating internationally in the building and technical trade. The scope of the thesis includes operations in seven countries. The case company includes a centralized unit responsible for global pricing coordination and development of related tools and processes. The case company has identified the need for global pricing governance, and recent mergers and acquisitions have emphasized the situation further.</p> <p>The thesis first focuses on building a conceptual pricing governance framework based on best practices from literature. This theoretical framework was utilized throughout the different phases of the thesis and identified key elements were considered in all phases.</p> <p>The current state analysis describes the differences in how pricing is managed and controlled in different organizations and seeks opportunities to improve pricing performance. The analysis describes the overall business environments, provides information about the pricing management and pricing capabilities and identifies development areas, possible issues and positive findings. The study was mainly conducted as qualitative research consisting of interviews, surveys and reviews of existing documentation. Quantitative research was applied to confirm the findings. Due to restrictions set by the case company, the current state analysis was published only partially. The whole content was available for instructors in a separate appendix.</p> <p>The conceptual framework and findings from the current state analysis were combined to build an initial suggestion of the operating model. The operating model was validated in a feedback session with the case company's instructors.</p> <p>In conclusion, the operating model consists of different interconnected elements including pricing strategy, pricing policy, pricing process, pricing metrics and KPIs, organizational structure and pricing systems. The benefits of the operational model include immediate and long-term pricing performance increases.</p>	
Keywords	pricing, governance, strategy, process, policy

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1 Introduction

Pricing has a dramatic effect on the success of companies. Even the smallest of changes can increase profits significantly or in worst cases, destroy the trust of clients. Therefore, pricing should be considered to be a critical business process and provided with adequate resources to increase overall value and performance.

As the company size grows, pricing functions can spread inside the company and are done by more and more people in different teams and functions. Different ways of working are bound to evolve, and as a side effect, new systems are developed for individual needs. Overall pricing performance decreases and the introduction of common processes and systems become challenging or near impossible.

To successfully manage and coordinate the pricing processes, policies and tools in different environments, overall pricing governance is required.

1.1 Case company

The case company is a Finnish listed trading sector company. The company operates in the grocery trade, the building and technical trade and the car trade. Its divisions and chains act in close cooperation with retailer entrepreneurs and other partners.

The case company offers its consumer and business customers comprehensive selections of building and home improvement products, as well as electrical and HEPAC (heating, plumbing and air conditioning) products.

The company has operations in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland and Belarus. At the end of 2016, the company had 15,630 personnel. In the building and technical trade, the company is the market leader in Finland, and in the building and home improvement trade, the fifth biggest operator in Europe.

The scope includes operations in seven different countries and two different organizations described further in the current state analysis in chapter 4.

1.2 Business Challenge

The case company includes a centralized unit responsible for global pricing coordination and development of related tools and processes. The need for global pricing governance has been identified and recent mergers and acquisitions have emphasized the situation further by adding a new layer of complexity.

At the moment the central organization does not have a thorough understanding of how pricing is done in different organizations and different countries. Pricing is managed at country level and with various tools out of which some are common, e.g., ERP (enterprise resource planning), and some are built for local needs. Related processes have not been defined, and ways of working are different in all organizations.

Centralized pricing unit needs the ability to influence pricing on various levels and perspectives. Business is divided into B2C and B2B sales and pricing logic between these are very different. The case company also acts as a wholesaler to privately owned chain-concept stores which adds another level to pricing hierarchy.

Introducing global pricing governance should ensure common ways of working and application of standard rules and policies. It enables the development of global tools and building the capabilities and organizational behavior to adapt to new ways of working.

The objective of this thesis is to design an operating model for the case company's central pricing unit to be able to implement global pricing governance.

The outcome of this thesis is the operating model.

1.3 Thesis outline

Research of the business challenge will focus on how the operating model for pricing governance can and should be built and implemented in the case company considering all operations.

Literature used in theoretical analysis consists of pricing and process management and governance as well as pricing related change management. A conceptual pricing governance framework is built in this phase.

This thesis will include three main parts. The first part focuses on pricing theory and what are the different benefits and possible downsides of pricing governance. The second part describes the business needs. This part will look more deeply into the current state of different operations and identifies the possibilities where improvements can be achieved through governance. The third and part will be the actual suggestion of an operating model for pricing governance.

2 Research design & methods

This section describes the research design and methods used in this thesis. First, it describes the used research approach and research design, followed up by a review of data collection and analysis. This section also considers the validity and reliability of collected and used research materials.

2.1 Research design

The research design includes five different phases which are described in Figure 1.

1. The business challenge, objective and outcome of this thesis
2. Existing knowledge from literature to build a conceptual framework for pricing governance
3. Current state analysis of pricing operations
4. Developing an operating model for the organization
5. Feedback and validation of the operating model

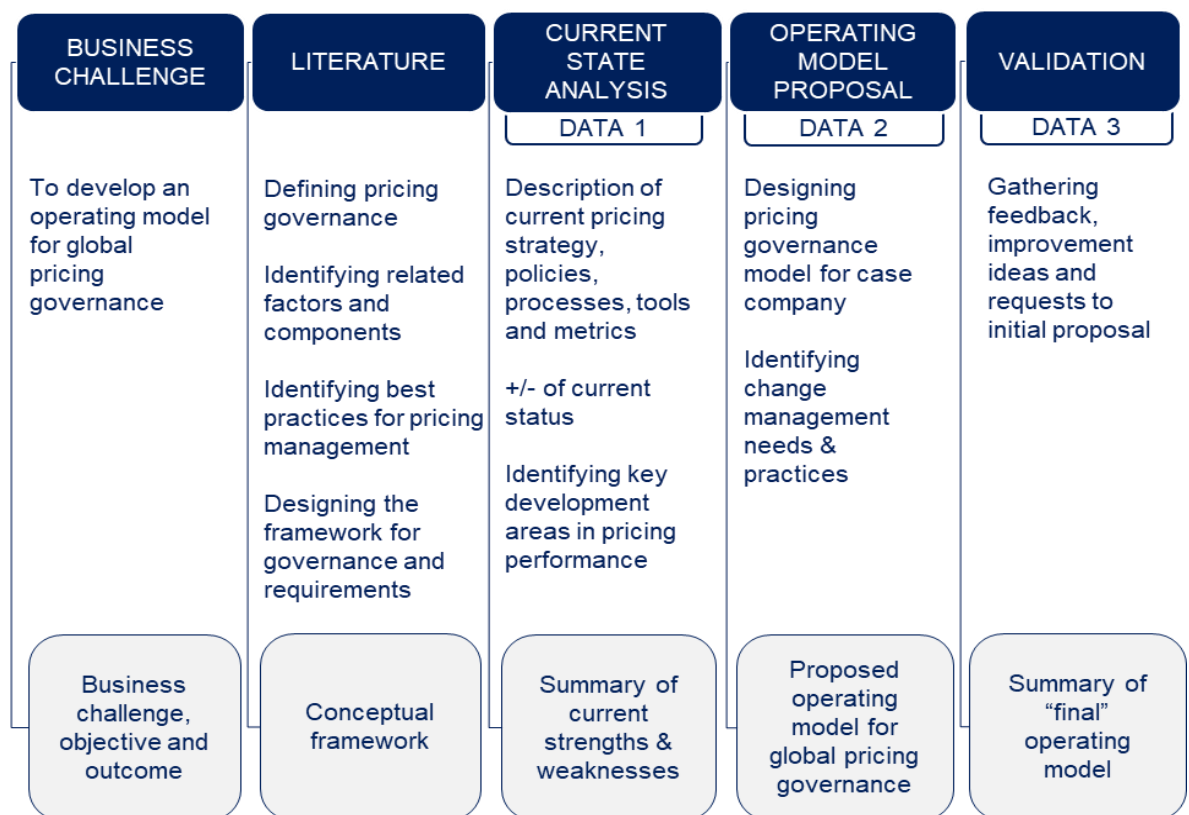


Figure 1. The research design.

2.2 Data collection and analysis

Data is collected from multiple sources and consists of different data types. Table 2 describes the data collection plan.

Data 1 consists of data requirements for current state analysis. This data includes interviews, documented information, surveys and pricing related data in BI systems. Majority of the Data 1 interviews have been conducted as a part of different workshops while working with pricing development projects in the organization. These interviews and workshops have included members from all country management teams as well as pricing managers, specialists and sales personnel in all countries. Combining the interviews with actual development projects has benefits and weaknesses. The interviews are not structured, and discussions can easily extend to different topics. However, open discussions have presented opportunities to discover valuable information that otherwise could have been missed.

Documented information consists of different pricing related documentation, e.g., pricing strategies, processes and policies which were available when the analysis was done. In some cases, the documentation was either outdated, did not cover the scope of the analysis or did not exist at all. Due to the lack of documentation, a pricing maturity survey was conducted to provide the required information for the analysis. Some of the initial findings were also validated with different pricing data available in the company's business information systems. Also discussed KPI's and scorecards were checked in these systems.

Data 2 and 3 consist of interviews with different stakeholders and management team representatives to ensure that the outcome will provide value for the case company. Validation of findings compared with data and expectations will be done.

Table 1. Data collection plan

Work package	Content	Source	Informant	Outcome
DATA 1 CURRENT STATE ANALYSIS	Description of current policies, processes, tools, roles and metrics +/- of current status Identifying key development areas in pricing performance	Pricing policies and process descriptions Stakeholder interviews in all BTT countries Data in BI systems Pricing maturity assessment	Local pricing managers and specialists Local management Local sales personnel	Summary of current strengths and weaknesses
DATA 2 BUILDING PROPOSAL	Defining pricing governance, policy and process Designing pricing metrics & KPI's Identifying change management needs & practices	Stakeholder interviews	Global pricing team Global management Finance / controllers / BI experts	Proposed model for global pricing governance
DATA 3 VALIDATION /FEEDBACK	Improvement ideas to initial proposal	Stakeholder interviews	Local key stakeholders Data 2 participants	Summary of "final" governance model

3 Existing knowledge

This section first describes and discusses the importance of pricing and the definition of pricing governance in general and then identifies and suggests the different elements that should be included in the suggested operating model. These elements are evaluated further, and their suitability and necessity for use in the case company are assessed.

The outcome of this chapter is a conceptual framework for building the suggested operating model in chapter 5. The framework will also be applied in the current state analysis to identify related strengths and weaknesses.

3.1 Importance of pricing

Pricing is a strategic decision with a direct impact on profitability. Pricing products or services too high or low can destroy the profits of any organization. If the prices are too high, customers will shift their purchases to competitors and market share and relevance is lost. If the prices are too low, the company is not gaining enough profits from the value it is creating. Maintaining wrong prices will eventually lead to lost revenues, lost profits, lost customers, and ultimately a lost company. (Smith, 2012). Dutta, Bergen and Zbaracki (2003) confirm that a company's ability to set and maintain the right prices is an essential determinant of the company's ability to generate profits.

Hinterhuber (2004) claims that pricing has not received enough attention from corporate managers and it has also received little academic research considering that the impact of pricing on profitability is very high. Furthermore, Hinterhuber (2004) suggests that pricing has more influence on improving operating profits than any other operational management tool. A study based on Fortune 500 companies revealed that a five percent increase in average selling price would improve EBIT by 22% on average, while similar improvements on other factors have a smaller impact. Figure 2 shows the impact on EBIT by 5% improvement in price, revenues, cost of goods sold, operating expenses and research and development costs.

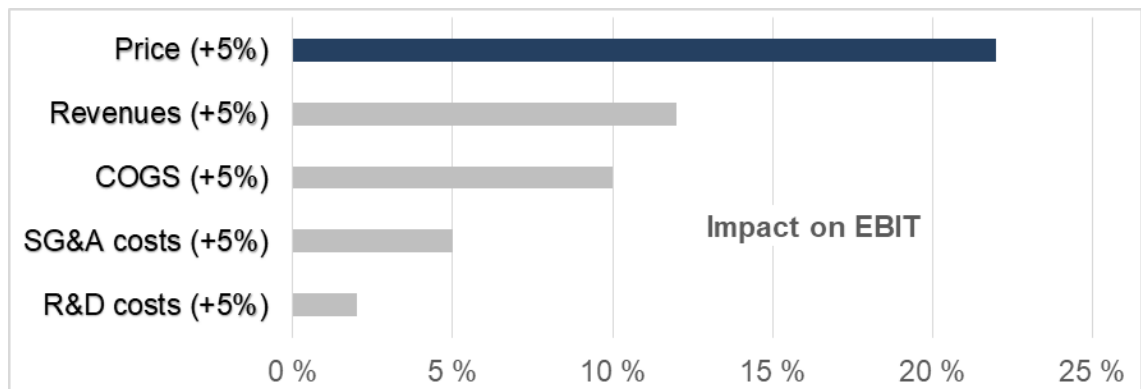


Figure 2. Pricing and its impact on profitability (Hinterhuber, 2004).

A group of McKinsey consultants (Marn et al., 2003) published similar results from examinations of typical S&P 1500 companies. In their case, 1% increase in prices generated 8% increase in operating profits. They also emphasize the fact that a decrease in prices by 1% brings down the operating profits by the same 8%. Furthermore, their study shows that the gains in volume rarely compensate the lost revenues from lower prices due to the elasticity of demand.

3.2 Pricing governance

The term “pricing governance” should first be defined. BusinessDictionary (2018) defines governance as “establishment of policies and continuous monitoring of their proper implementation, by the members of the governing body of an organization. It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organization”. This definition leads to a conclusion in which a governance model should include policies and processes, continuous monitoring and organizational structure with defined responsibilities.

Operating model for governance is described as: “the mechanism used by management to translate the elements of the governance framework and policies into practices, procedures and responsibilities within the corporate governance infrastructure.” (Baret & al. 2013).

In the first discussions with management in the case company, the requirement to include pricing strategy in the thesis was discussed. After consideration, the pricing strategy was accepted and included in the thesis as a required starting point for all price-related actions in the organization.

For this thesis, the best way to describe pricing governance is to refer to it as a set of factors required for pricing management and control. These factors include:

- pricing strategy
- pricing policy
- pricing process
- pricing objectives, metrics and KPI's
- continuous monitoring
- organizational structure
- pricing systems

3.3 Pricing strategy

Pricing strategy can be viewed as how a company is trying to achieve its price related market outcomes (Noble & Gruca, 1999). According to Tim J. Smith (2012), executives who are responsible for pricing management have four fundamental issues to consider. What should the price be, how and when discounts should be managed, is the price structure generating enough profits and how competition and industry dynamics affect the company's pricing. To be able to answer these questions and to practice consistent pricing and eventually increase pricing performance, companies need to have a pricing strategy.

Development of pricing strategy should be linked with the organizations strategic planning process. (Hallberg, 2008). Individual prices, pricing strategy and competitive strategy have a hierarchical relationship as prices are dependent on the pricing strategy, and the pricing strategy is dependent on competitive strategy. Therefore, in order to be consistent and aligned with the organization's competitive strategy, pricing strategy needs to be integrated within the strategic planning process.

3.3.1 Price setting

Monroe (2003) describes five essential factors which affect price and pricing decisions. They are demand, costs, competition, objectives and regulatory constraints.

Demand defines the ceiling (maximum) price what the customers are willing to pay for a product or service. Demand is driven by different determinants which include the price of the product or service, availability of sold goods or services, assets of the customer, prices of related (substitutes or complementary) goods or services, market environment, product preferences and the expected benefits of the product or service (Smith, 2012). A demand curve describes the relationship between price and the amount that customers are willing to purchase at a given price point. Each point on a demand curve represents a maximum price point for an individual customer. Therefore, considering demand is essential as it also provides valuable information on how price changes are accepted by the customers, i.e., what is the elasticity of demand. (Monroe 2003). Markets are considered to be elastic when a small change in price has a substantial effect on the quantity sold. According to Smith (2012), most companies face elastic demand curves, which is a direct result of competition and low switching costs of the customers. The elasticity of demand can be calculated by statistical analysis and used to support pricing decisions. Findings from studies (Smith, 2012) support the assumptions that when the prices increase, customers first change to a cheaper alternative and ultimately reduce purchases if the price increases continue.

Opposite to demand, direct variable costs define the floor (minimum) price that a supplier is willing to sell at (Monroe, 2003). Costs need to be considered while assessing the profitability of different pricing alternatives and estimating profitability when demand changes (Hallberg, 2008). Competitive factors can decrease the amount customers are willing to pay while company objectives and regulatory constraints increase the minimum price the company expects to receive for its product or service. Furthermore, Monroe (2003) suggests that corporate objectives should be integrated with price management underlining the previous observation (Smith, 2012) that a company should establish a pricing strategy. Monroe (2003) suggests that price management should be considered from three perspectives; economic and competitive environment, product and market strategy and pricing process management. Nagle, Hogan and Zale (2010) confirm this approach and claim that price setting should include the analysis of company's business

goals and cost structure, customer preferences and needs, and the competition's pricing and strategic intent.

Nagle, Hogan and Zale (2010) claim that setting the initial price too high will lead to more pressure in pricing and creates the need for ad hoc discounting. Instead, they suggest that companies should find the price point which is defensible to customers through a three-step price-setting process. The first phase is to define a price window for the product based on the products differential value and costs, i.e., calculating the floor and ceiling price levels for a product. Competitor's reference prices and their possible response should be considered when determining the floor price. The second phase of the process is to establish an initial price point, i.e., determining the amount of the differential value to be captured. For example, companies can decide to set the initial price point lower to capture the market or price higher to potentially gain a better margin over the long term. When determining the initial price companies should consider their overall business strategy, the trade-off between price and volume, and the customer response. The final phase is to ensure that prices are communicated to the market. Communication is especially important when changing existing prices. Customers have to understand the rationale of price changes and they need to believe that the prices are fair. (Nagle, Hogan and Zale, 2010).

3.3.2 Pricing objectives

Pricing objectives have an essential role when pricing strategy is being developed, and they set the direction for the whole pricing process. Nagle, Hogan and Zale (2010) refer to three different pricing objectives when the initial price is determined. These are price skimming, penetration pricing and neutral market pricing. Other possible objectives include, e.g., target rates on return on investment, maintaining price leadership, increasing pricing image and fairness to customers, or discouraging new entrants to the market.

Price skimming is used when the objective is to increase short-time profits and is designed to capture high profits with the expense of volume. (Hinterhuber, 2004). According to Nagle, Hogan and Zale (2010), the success of skimming is relying on price-insensitive customers who give more value to other factors, such as brand or product image. Skimming also requires the ability to communicate the value to justify higher prices. The competitive environment must support price skimming, and ideally, the product has some protection from low-priced competition in the form of, e.g., patents, copyrights, brand

quality or distribution. While price skimming might be an option for only a few companies, the more dynamic version – sequential skimming is more adaptable and sustainable. Sequential skimming first attracts the least price-sensitive customers, the early-adopters, and after that market is filled the price point is lowered enough to attract the next level of price-sensitive customers. This process is repeated until there is no more demand, or the minimum sales price is reached. The disadvantage of sequential skimming is that customers will eventually become more aware of the price cuts and begin to expect them, thus leading to a situation where the customers stop buying as they try to anticipate the next price cut. (Nagle, Hogan and Zale, 2010)

Penetration pricing is used when the objective is to increase market share rapidly by setting the initial price low compared to the relative value of existing products. (Nagle, Hogan and Zale, 2010). For example, selling a product with the same benefits and same price as the reference product, but with a more extended warranty, is considered to be penetration pricing. Another form of price penetration is to increase the level of the product's value for the customer while not increasing the existing price level. Penetration pricing requires that the market is very price elastic and that a large share of customers are willing to change their purchase behavior in favor of lower prices, i.e., the switching costs for customers are small. Nagel, Hogan and Zale suggest that not all markets will respond to lower prices and that in some cases penetration pricing can be harmful to a brand's image. Penetration pricing can also be considered to be risky because competitors might lower their prices in response (Smith, 2012.)

Furthermore, Smith (2012) suggests that penetration prices should be only used as limited price promotions when introducing new products rather than resetting the price level of the product segment. Nagle, Hogan and Zale introduce three scenarios where penetration pricing can be used to gain and maintain market share. First is if the company has a cost or resource advantage reducing the risk of competitors starting a price war. Second is if the company has more complementary products to offer and the third scenario is if the company small enough to not attract the interest of competitors.

According to Smith (2012) pricing is considered to be market neutral when the company is not using price as a means to capture the market and favor other marketing factors instead. Nagle, Hogan and Zale (2010) suggest that neutral pricing is more difficult than skimming or penetration pricing as it is harder to balance both factors rather than to choose one. Neutral pricing is used in situations where the market does not support

skimming or penetration pricing. For a company, it might be impossible to adopt skimming in a highly substitutable market while adopting penetration pricing can be equally difficult for the same company if it is unable to communicate the real value of its products. Therefore, neutral pricing is common in industries where the customers are value sensitive, and competitors are volume sensitive.

3.3.3 Pricing structure

Pricing structure describes the method of how a company discriminates prices for different customer segments to capture the full value from each customer segment and is a strategic medium to price-segment the market (Smith, 2012). Ideally, a company would like to gain volume and margin as much as possible from each customer segment. However, customers can value the products and services differently because of, e.g., their ability to pay or need for the product or service. According to Nagle, Hogan and Zale (2010), the cost of serving the customer should be considered when prices are defined for different customers and customer segments. The costs of serving different customers can vary because of, e.g., different payment terms, the required level of service or logistics costs. Using only one price for all customers leads to a tradeoff between volume and margin as it enables some customers to purchase products or services for less than they would be willing to pay. Sales can be lost because the price is too high for some customers, even if the price they are willing to pay would be enough to cover costs and provide profits. If a company wants to capture the full value from different customers and customer segments, a price structure is required. This price structure needs to be aligned with the customer's perceived value for the product or service and the cost to serve the customer.

Nagle, Hogan and Zale (2010) suggest that creating more price segments to increase margin potential is always a good option as long as the seller is able to enforce the prices. Hence, too many segments can become too expensive or difficult to manage. A segmented price structure should also include the criteria of how different customers are divided into segments. Nagle, Hogan and Zale (2010) describe three different mechanisms to manage segmented price structures: price-offer configuration, price metrics and price fences.

The price-offer configuration focuses on differences in the perceived value of different customer segments caused by features or intended use. In this case, the seller can segment the market by offering different configurations for different segments and allowing

the customer to choose which products or services they want to purchase. It requires the seller to decide which products or services it wants to sell individually and which need to be bundled and how many different bundles should be available. The seller can then set different price points based on the final product or service configuration (Nagle, Hogan and Zale, 2010).

Price metrics address the situations where features or services do not differentiate value. Instead, the perceived value can be calculated based on different price metrics which describe what the customers receive from their purchase. Common categories of price metrics are the price per unit, per use, per time, per person or per amount of benefit received. Price metrics need to be analyzed and developed over time to identify the opportunities to improve margins from different customer segments. A typical example of evolution in price metrics is to sell renovation services based on completion of a job instead of used time. (Nagle, Hogan and Zale, 2010).

Price fences are used to differentiate price in situations where the perceived value based on features and measurable benefits is the same for all customer segments. The difference of value can be linked to income, available substitute products or services or other benefits that are not measurable, e.g., psychological benefits. Price fences can be created based on the customer (e.g., discounts for senior citizens or students), purchase location (e.g., different prices in different cities), time of purchase (e.g., discounts at movie theaters during midday) and quantities purchased (e.g., volume discounts) (Nagle, Hogan and Zale, 2010).

3.3.4 Discount management

Discount is another form of a price variable that companies need to manage. Schürmann et al. (2015) suggest that companies often disregard discounts from their pricing strategy and discounts rarely provide the value they could. Furthermore, they claim that 80% of B2B companies either give fixed discounts to all customers or vary their discounts based on common characteristics like sales volume or customer segment, while only 20% of the companies actually base their discounts on factors that provide value for the seller, such as longer lead-times which can help optimize production.

Stephan M. Liozu (2015) suggests that there are at least three good reasons to have a discounting strategy. First is to be able to establish a high reference price and leave room

for negotiations, second is to adjust the price to value for different customer segments, and the third is to be able to invest in specific target markets or customers.

When discounts are included in the pricing strategy and discounts are given based on existing pricing policies they can be considered as an established mean for setting the prices. However, when the discounts become nonstrategic, unwarranted, or erratic problems in profitability can arise. Figure 3 describes how much more a company needs to sell to in order to compensate for the discounts and gain the same amount of margin. For example, giving a 10% discount for a product that usually yields a 35% gross margin, means that the company should increase the sales volume by 40% to retain the same margin.

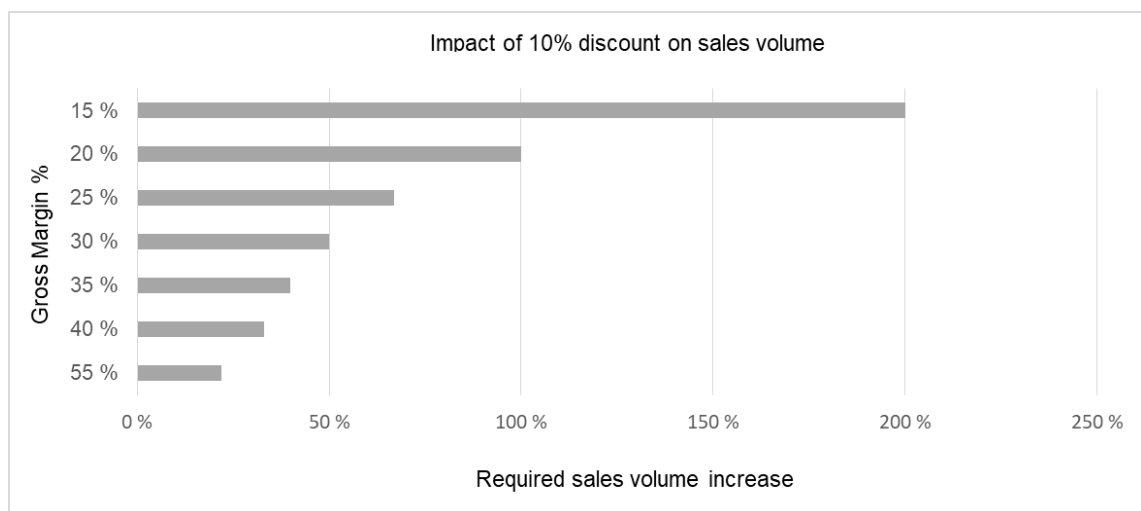


Figure 3. Impact of discounts on the required sales volume.

Tim J. Smith (2012) describes discounting decisions as an organizational challenge and a constant source of conflict between field executives and centralized executives. Sales and marketing people in the field are generally required to increase the company's market share, and therefore are pushing for more discounts. On the other hand, the interests of centralized executives are to decrease the number of discounts and capture better prices. Smith suggests that when discount policies are determined, both parties have valuable knowledge that should be used. Field executives can offer value and decision-making insights from facts and points of information from the market, while centralized executives can aggregate multiple data sources and combine this information with feedback from the field executives.

Discount management requires the ability to measure and understand the given discounts. Smith (2012) presents three different tools which help manage discounts; the net price band, the relationship between captured net prices and market variables and the price waterfall. A net price band is an analytical tool which helps understand how the sales volume is distributed between different price points. Net price band plots transactions and provides information on price heterogeneity and identifies unprofitable transactions. Figure 4 illustrates an example of a net price band. The figure shows that 40% of sales were made with a net price of 18€, while 5% of sales were made with a net price of only 12€ and some of the sales were made with a net price of 22€. The tool can be utilized in decision making by moving customers away from the lowest price points and adding some sales to the highest price points.

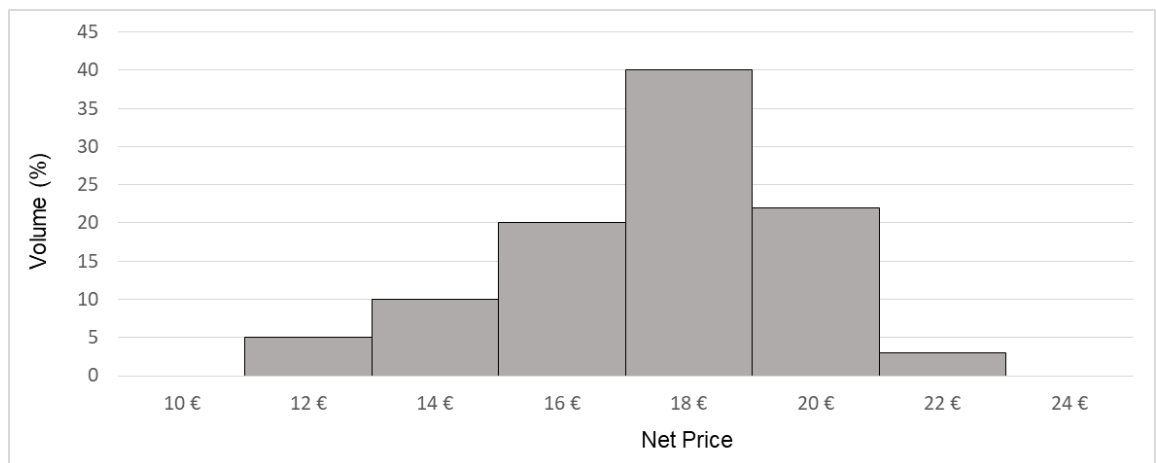


Figure 4. Example of a net price band (Smith, 2012).

Smith (2012) suggests that if the price dispersity in the net price band is high, the next step would be to examine the price points of different customer segments to help understand if there is an actual difference between the segments behavior or if there is a slack in management in some of them.

The relationship between paid net prices and market variables can be determined with further analysis. For example, if the lower net prices are linked with selling higher volumes, it should clearly be presented in the company's sales data. The company can also compare and analyze net prices paid with different variables, such as market regions, logistic costs, sales channel, the presence of competition, or with the help from statistical analysis.

Marn et al. (2003) describe the price waterfall as a simple but powerful tool which shows how much revenue each transaction actually brings to the company. A pocket-price waterfall helps to identify transaction-pricing opportunities and possible sources of lost profits. Price waterfalls identify the provided discounts which affect the difference between internal reference prices (e.g., MSRP or list price) and the captured net price (Smith, 2012). The waterfall plots the type and amount of discount given and the timing of the discount.

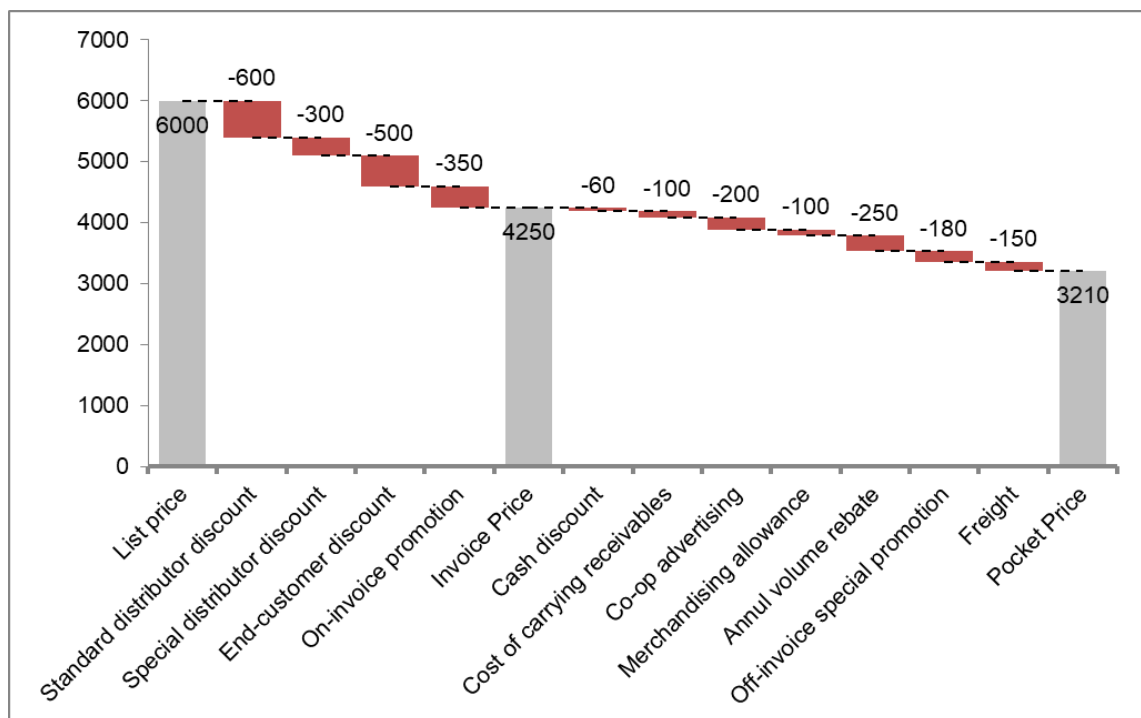


Figure 5. Example of a price waterfall (Marn et al., 2003)

Figure 5 illustrates an example of a price waterfall which highlights the different discounts and their effect on profits thus providing valuable information where the profit is leaked. According to Smith (2012), each discount provides an opportunity for improvement, and the seller could shift discounts away from forms of discounts which are not sensitive for a specific customer or customer segment.

Discount decisions are often dispersed within the organization, and many of the decisions are made on the field without the possibility to make an in-depth analysis of the discount's effectiveness. Organizations usually have two different approaches to manage these discount decisions; building limitations on decision making authority and

creating incentives which support the company's goals. (Smith, 2012). Decision-making rights can be escalated up through the organization depending on the amount of the required discount. For example, sales managers could decide on discounts up to 5%, and if more is required, the decision should be made by their territory managers. They could approve discounts up to 10% before authorization from sales executives is required. Nagle, Hogan and Zale (2010) advice that when discount decisions are made, existing company-wide criteria should also be applied to ensure that all given discounts are warranted and beneficial for the seller. Instead of asking for a better discount from his superior, the salesperson should first consider if that criteria is fulfilled.

Incentives are an effective means to influence the behavior of sales personnel. Aligning the incentives of the decision makers with the discounting goals of the organization will improve the results and enable to sustain a profitable way of working. The incentives of sales personnel should be shifted from volume and revenue-based bonuses to margin and profit-based bonuses to gain the best possible value from discounting. (Smith, 2012).

Joseph Kissan (2001) researched the optimality of delegating pricing authority in the organization and suggests that it is dependent on the environment. His study shows that price delegation causes the sales personnel to reduce their selling efforts as they find it easier to gain sales by discounting rather than prospecting customers who value the products more. Therefore, it can be beneficial for the company to limit the pricing authorities and increase the incentives which support the sales personnel's to seek a better margin.

3.3.5 Competition and industry dynamics

Understanding the price and value of a competitor's products and services is equally as important as the capability to understand the customer's willingness to pay. Pricing against competition is generally more challenging than pricing of unique products where only the customer's price sensitivity is essential. Competition limits the customers' willingness to pay and influences on the perceived value of a company's products and services as well as the capability of managing prices strategically. (Smith, 2012). Furthermore, Smith suggests that most companies should focus on other levers of strategic marketing instead of competing with prices as lower prices do not usually reflect a competitive advantage.

Industry price management aims to maintain healthy pricing behavior throughout the industry and avoid destructive pricing actions because price wars will eventually lead to a situation where revenue is lost from the industry. Especially in mature markets where competition is relatively stable, the attempts to gain market share by undercutting competitor's prices are often responded with similar actions by the competition who aim to protect their market share (Smith, 2012). Noble and Gruca (1999) point out that in most industries, the price leaders, who are often also the market share leaders, initiate price changes and expect the competition to follow their lead. Price leaders often have a higher price point than its competitors who set their price levels based on the price leader. Pricing based on price leaders is common in industries where price changes are easy to detect and total demand is inelastic.

Smith (2012) describes different structural drivers which build price pressure in industries. Prices and pricing practices of competitors are relatively easier to monitor in industries with only a few competitors, thus making it less attractive for companies to compete with prices. However, in industries with a large number of competitors, reactions to price changes will take longer, and short-term improvements for market share are possible through price reductions. The maturity of pricing managers is an essential factor when the pricing actions of competitors are assessed. Failure to understand industry dynamics and competitors' goals can lead to unnecessary price wars. Industry maturity is equally important as benefits can be gained from operational performance through economies of scale and scope as well as accelerating the learning curve especially in young and fast-growing industries.

A pricing strategy should include competitive pricing strategy which describes how the company should respond to competitors price changes and how the competitive pricing strategy should be adapted to different situations. As illustrated in figure 6, Nagle, Hogan and Zale (2010) suggest that there are four ways to respond to competitors' price changes based on the cost of price reaction and competitors' strategic position.

		Competitor is Strategically	
		Weaker	Neutral or Stronger
Price Reduction is	Too Costly	IGNORE	ACCOMMODATE
	Cost-Justified	ATTACK	DEFEND

Figure 6. Options for Reacting to Price Competition (Nagle, Hogan and Zale, 2010)

If the competitor is weak, the company can decide to ignore the competitors' prices if the cost of reducing prices becomes significant. Weak competitors rarely have cost or product advantages, and they can only affect a small part of sales. If the competitor is weak and costs can justify an attack approach it can be considered. However, the attack strategy is rarely beneficial considering lost margins compared to retained sales. An attack strategy can also be interpreted as predatory pricing, where the goal is to shut down the competitor, which is highly unethical and illegal especially in industries with only a few players and for companies with high market shares. A strong competitor who can increase its market share can be a threat which needs to be mitigated. In cases where responding with price-cuts becomes too expensive, the threat can be accommodated. Accommodating the threat aims to minimize the impact of the threat by, e.g., differentiating the company's offering against its stronger competitors. Defend is a valid strategy if the competitor is strong and the risk of losing sales overcomes the costs to respond. The purpose of the defend strategy is to convince the competitor that market share cannot be gained with smaller prices, thus forcing the competitor to stand down.

According to Nagle, Hogan and Zale (2010), there are only four different scenarios when a company can benefit from pricing aggressively against its competitors. First is if a company has a substantial cost advantage or can gain it through a low-price strategy. Second is if a company offers a product which is attractive only to a relatively small customer segment and assumes that competition is unlikely to respond. The third scenario is if a

company can subsidize losses from one market with the sales of complementary products. The final scenario is if the price competition leads to an expansion of the market thus providing improved profitability throughout the industry.

Carricano (2014) evaluated the influence of different pricing determinants on actual pricing performance in an empirical study. The findings state that most of the determinants which companies are using are linked with competition, i.e., most companies are following the market prices. Value-based pricing is driven more by market/product dynamics, i.e., market growth and price elasticity. The identified key drivers of price premium are product differentiation and inelasticity, which means that companies overrate their competitors' reactions to prices. Three strategies were identified to have an influence on pricing power: opportunistic and penetration pricing decreases it significantly while a price leader strategy increases it.

3.4 Pricing policy

Policies are a set of rules, practices or principles to support decision making. Typically policies are set in order to avoid negative effects or to achieve benefits by following guidelines which promote positive effects. Nagle, Hogan and Zale (2010) state that pricing policies can be explicit or cultural by nature, and they determine how a company varies its prices when other factors besides value and cost threaten its capability to reach objectives. Pricing policies should be designed for different situations, e.g., responding to price objections, managing price increases, dealing with an economic downturn and managing promotions. Furthermore, policies should explicitly state the criteria which decision making should be based on, i.e., instead of describing who has the authority to approve exceptions in prices, policies should describe the factors needed to authorize such exceptions so that the policy can be applied for all similar requests. Policies should be transparent and consistent to enable proactive management of pricing challenges and for customers to understand and accept them.

Responding to ad hoc price negotiation with discounts will generally increase the number of pricing exceptions. Customers will eventually learn that complaining about prices will lead to better discounts. Hence, they increase the number of price negotiations. Constantly rewarding such exceptions does not only increase the workload of sales personnel, but the inconsistency in prices can lead to a negative pricing image. A high workload in pricing can then lead to a situation where the pricing exceptions become a standard

as the ad hoc discounts are expected by the buyer every time. Therefore, pricing policies should also be used to manage customer expectations.

Nagle, Hogan and Zale (2010) suggest that each pricing exception should be treated as a request to change or create a policy which can be applied in all similar future situations. If the number of such requests begins to increase it is evidential that a policy should be reviewed or created. Introducing and ensuring that policies are followed in the organization will ultimately teach the customers and the sales personnel that ad hoc pricing exceptions are not granted.

Stephan M. Liozu (2015) researched and listed different factors which influence the price-getting capabilities of a company. These factors can be assessed and utilized as the pricing policy is created:

- The existence of pricing rules and guidelines, e.g., specifying maximum discount levels and how these rules and guidelines are followed
- The consequences of not following these guidelines
- Approval rights for deviating from list prices
- Sales personnel's negotiation skills
- The ability to understanding customer's best available alternatives
- Understanding the customer's willingness to pay and the differential value to customers provided by the company's product and service offering
- Clear and well-communicated target prices
- Self-imposed or organizational pressure which pushes sales to conclude unprofitable deals
- The courage to refrain from unprofitable deals
- The amount and amplitude of free services offered to customers in order to close a deal
- Monitoring of price deviations and communicating them to sales personnel, marketing managers and other decision makers (Liozu, 2015).

3.5 Pricing process

Dutta, Bergen & Zbaracki (2003) claim that the processes for setting and changing prices are capabilities which can be used as a basis for competitive advantage. The required systems and skills to manage pricing efficiently cannot merely be bought without tailoring

and developing the company's processes to meet both its own and its customers' requirements. They also point out that managers often consider price changes to be easy, quick and reversible but the evidence in their research suggests that it is a surprisingly difficult process for pricing managers. Furthermore, they claim that an efficient pricing process should be able to generate effective price changes which reflect the company's competitive strategy. Developing an efficient process should begin from the base of existing mechanisms as they cannot be ignored and left aside.

Dutta et al. (2002) emphasize the importance of human capital in the pricing process. Effective pricing processes cannot run on their own and require trained professionals who understand the company in all its complexities. Thorough understanding of the company's strategy, products, competitors, suppliers and customers is required. These requirements will keep growing in the future and become even more critical to the success of the company as pricing is becoming more complicated.

According to Stephan M. Liozu (2015), setting up a pricing process is difficult technically because it is very complicated. Changes in the pricing process can require changes to behavior which has developed over time. A pricing transformation should be done gradually, and it needs to be fully integrated with the company's culture and processes. Liozu also suggests investing in the company's pricing process, functions and discipline before starting the shift from cost-based pricing model towards a value-based pricing model. Furthermore, Liozu suggests that the best way to discover the root causes of possible pricing problems is to conduct a formal pricing capabilities assessment and to include the sales personnel from early on to avoid possible tensions in organizational dynamics.

Nagle, Hogan and Zale (2010) recommend that when pricing processes are defined the relevant activities within the organization, such as contract negotiations, should be considered broadly instead of focusing only on pricing-setting and discount approval activities. Clearly defined processes and decision-making rights help ensure that choices are made consistently. The need for practical information which can be utilized in decision making is highlighted and the capabilities to understand customer analytics and process management are essential. Review and improvement of pricing processes should focus on indicators which suggest that the process is not working effectively. These indicators include deviations from agreed price levels, unclear pricing authorities, non-standard customer requests, uncollected charges and write-offs and errors in pricing, order processing and fulfillment.

3.6 Pricing metrics and key performance indicators (KPIs)

Pricing metrics should be selected based on their ability to accurately represent price performance relative to the company's key objectives. Ghesquieres et al. (2017) have identified five critical components of performance management, which can be utilized when pricing metrics and KPIs are determined:

- Consistent and relevant KPIs
- A universal data taxonomy
- Integrated management reporting
- User-friendly dashboards
- Real-time business analytics

KPIs should be consistent and relevant. The focus should be on a limited set of KPIs that are relevant and critical to the company's pricing strategy. Equally important is to determine the KPIs which should not be tracked so that the amount of data and information in reports does not become too large and focus stays on the critical metrics. Data needs to be collected and presented in the same standardized format throughout the company. Financial, operational and human capital reporting should be integrated into one standardized management reporting system. This reporting system should be able to incorporate data from internal (e.g., sales transaction data) and external sources (e.g., market and customer data), include real-time analyses of past performance or future forecasts and allow easy drill-downs and maintenance of hierarchical reports which are relevant for different levels of the organization. User-friendly dashboards with built-in insights should be available for different business needs, such as summarizing key trends for management or visualizing pricing information (e.g., price bands or price waterfalls) for sales personnel. Performance management should sustain clear responsibilities and needs to be adapted as business requirements change. (Ghesquieres et al., 2017).

Baker, Marn and Zawada (2010) suggest that every company should have a set of metrics to track financial and operational pricing performance. These metrics could include simple and more complex data such as average sell prices, discounts, margin, pricing exceptions and win/loss ratio of quotes. These metrics should also be tied to financial incentives, or they are at risk to be neglected.

Elliot, Magnette and Chardin (2015), argue that it is difficult for a company to design performance management systems which benefit both the company and sales personnel. Sales personnel often have difficulties finding out how their goals are matching the goals of the organization. They suggest considering three things when building performance management. The first suggestion is to improve the transparency of meaningful data, such as profitability. Without that information, it is impossible to know which pricing activities are working and which are not. Use of real-time dashboards which can show information on customer or transaction level helps to pinpoint the unprofitable deals. The second suggestion is to design the dashboards specifically for the sales personnel. A useful system is motivating, helps to make better pricing decisions and thereby increases the sales personnel's capability to reach given targets. Also, tools which do not provide any value for the user will be disregarded over time. The final suggestion is active management and tracking of targets. Balancing metrics between revenue targets and margin is essential. Using margin based on pocket price, i.e., the final net price after all costs to serve are deducted, is suggested as it is a pragmatic view of margin.

After the KPIs have been determined, responsibilities need to be appointed and those who are accountable need to have enough decision-making rights to achieve their targets. Lehmitz, McLellan and Schulze (2015), suggest that KPIs should be connected to the sales force with meaningful incentives. They claim that companies which track performance against KPI's actively usually outperform their competitors. Furthermore, they suggest having monthly or even weekly meetings where sales managers quickly check progress against targets and identify pricing opportunities and threats.

3.7 Organizational structure

The debate between centralization and decentralization has been going on for decades (Campbell A., Kunisch S. & Müller-Stewens, 2011), as both approaches offer benefits and challenges. Poorly managed centralization can lead to situations where constraints overpower and burden business divisions and prevents the possibilities to achieve business targets. Kissan's study (2001) proved that centralization brings value to pricing because sales personnel tend to take advantage of discounts in order to reach their targets, rather than seeking best available margin depending on the customers' willingness to pay.

Liozu (2012) claims that delegating pricing authority to sales organization is a difficult and emotional question. Sales personnel claim to own the best knowledge of customers, thus having the best ability to make final pricing decision while management believes that sales are too willing to negotiate prices. Liozu suggests that the latest studies support the sales personnel's' views, but mainly because the delegation of control authority raises the sales personnel's' pricing confidence. Liozu describes four different organizational approaches to pricing: decentralized pricing, center-supported pricing, center-led pricing and centralized pricing.

Decentralized pricing is used in most companies where pricing is not managed at all or is managed poorly. Typically prices are set on the field by sales personnel with little or no guidelines from the company. Therefore sales have maximum flexibility to decide on prices which allows them to respond quickly to changing market factors. The key measurement of success is revenue instead of profit. This structure offers little control and transparency to management. Since there is no overall ownership of pricing, fixing pricing problems and managing price changes is very difficult. (Liozu, 2012)

Center-supported pricing provides management more control over final prices. It is used in companies where sales still need to have the final decision but requires more pricing discipline. Process improvement is the key measure of success, and it is dependent on a pricing department which is officially responsible for pricing. This pricing function constructs the pricing process and is supporting the organization by creating sales tools and managing pricing systems, price increases and list prices. However, this pricing function has no authority on final prices and focuses on supporting the decisions and direction of the management. The key advantage in this approach is the establishment of basic pricing functionality and control over price-entry processes. The disadvantage is that this structure is only supporting the pricing operations instead of leading them thus allowing the existing revenue-leakages to continue. (Liozu, 2012)

Center-led pricing incorporates pricing expertise to the company's strategic level. This knowledge along with selected pricing responsibilities is spread in the organization through processes, training, tools and reports. Center-led pricing structure gives feedback on the list and target prices, provides analyses of pricing opportunities and develops pricing guidelines. Profit and process management are the key measures of success. This pricing structure brings many advantages. Standardized processes with clear ownership ease the implementation of changes and improve consistency. Central monitoring

identifies opportunities to increase profits and enables the sharing of knowledge. Liozu (2012) emphasizes the importance of operating this model as a pricing intelligence community which collects information from different areas and processes opportunities and threats from a strategical perspective. Sharing pricing knowledge throughout the organization builds organizational pricing confidence and collective capability. The disadvantage of center-led pricing is that pricing leaders still lack pricing authority even though they have pricing responsibilities. Therefore, pricing leaders must rely on persuasion to push changes while local business units still have the final word. Depending on the organizational culture, this can be too difficult to manage. (Liozu, 2012)

Centralized pricing incorporates a central team which is responsible for all pricing in the organization. The benefits of this model are consistency in prices and less price erosion. The pricing function is responsible for processes, tools, analysis and customer offers. The key measures of success are profit and degree of pricing compliance. The disadvantages of centralized pricing are the lack of flexibility and response time from the central team. Sales personnel may feel untrusted and frustrated because of their diminished negotiation power, and their discontent might lead to lost employees. (Liozu, 2012)

Liozu (2012) states that none of the above models are perfect and the best alternative is dependent on the organization and its circumstances. However, he sees the best potential in center-led price management.

Hutchinson et al. (2017) suggest that the degree of centralization should depend on the number of shared customers and competitors in different business units and shared internal capabilities and assets. Coordinating pricing decision across different business units becomes more important as the number of shared customers and competitors increase. Furthermore, they suggest that organizational and reporting structures should be considered when the pricing organization is designed.

The organizational structure can be built by business segment, customer type, region or activity or a combination of those. The reporting structure should be built so that it ensures that information is shared with a pricing council, which includes all stakeholders who participate in pricing decisions. Top management should recognize and acknowledge their role in pricing, and it is recommended that the CEO or another senior leader should lead the pricing council. The pricing councils' role is to manage critical

pricing decisions, resolve conflicts and act as a steering committee for pricing. (Hutchinson et al., 2017)

3.8 Pricing systems

Dedicated pricing systems are often required because ERP systems lack required pricing capabilities or price setting and management would be too complicated to handle in such a system. A common workaround has been to manage prices in spreadsheet tools which are flexible, but also highly vulnerable to errors. Depending on the company's size and amount of available data, performance can also become an issue, and updating and refreshing data can be cumbersome. ERP systems' reporting capabilities are often limited and require complex processing in spreadsheet tools to provide analysis.

According to Baker, Marn and Zawada (2010) pricing systems and tools should facilitate the pricing process, support the pricing organization and enable pricing performance management. The requirements for pricing systems differ vastly by business, but generally, they should have capabilities in pricing analysis, price optimization, price management and infrastructure support. Pricing systems are expected to help make pricing decisions and conduct negotiations, provide analyses which help identify opportunities to improve pricing, follow-up performance and monitor pricing activities.

Price analysis and reporting capabilities, such as metrics, dashboards and reports should offer managers actionable insights into pricing performance. Ability to visualize and simulate prices, e.g., in price waterfalls or price bands enables future price optimization. Pricing systems should have the capability to automate and monitor different workflows such as price changes in case costs of raw materials increase. Ideally, the pricing system would translate the company's pricing strategy to different pricing rules used in price calculations thus providing accurate price suggestions which are aligned with strategy.

Baker, Kiewell and Winkler (2014) suggest that optimizing prices is harder for large companies which sell thousands of products because the granularity and complexity of different price variables hinder analysis. They suggest exploring the different possibilities to utilize available data and automate the data analysis on the most granular level.

Dutta et al. (2002) emphasize the cooperation of superior systems and well-trained personnel. If a company invests in a pricing system without considering human capital, it risks to end up with an expensive and underused tool.

3.9 Summary and framework for pricing governance

The different elements for the framework for pricing governance were described in this section. Based on the literature and findings of best practices the operating model should be built to apply these findings in the case company's pricing operations. Six different key elements were identified:

1. Pricing strategy. All pricing actions should be able to be linked to pricing strategy. The strategy needs to be aligned with the case company's global and local organizations overall business (and competitive) strategy. The operating model should ensure that the pricing strategy is documented and that necessary guidelines for building the strategy exist. The pricing strategy should incorporate price setting, pricing objectives, pricing structures, discount management and competitive and environmental factors. (Smith, 2012; Nagle, Hogan and Zale, 2010)
2. Pricing policy. Policies should be designed and documented to manage deviations from normal pricing processes. The policies should not only describe the limits of different pricing authorities but also the situations and required reasoning behind the pricing decisions to ensure that all decisions are rational and necessary. The operating model should ensure that pricing policies are documented and that they support the pricing strategy. (Liozu, 2012; Nagle, Hogan and Zale, 2010)
3. Pricing process. Pricing processes should be designed and documented to manage pricing activities. Processes should clearly describe the different roles and responsibilities as well as decision-making rights. The operating model should ensure that pricing processes are designed and documented, they reflect actual pricing actions, and they support pricing strategy. (Nagle, Hogan and Zale, 2010)
4. Pricing metrics and KPIs. Pricing metrics and KPI's should be linked with financial and operational pricing performance. The operating model should ensure that pricing metrics and KPI's are designed and utilized and that they can be globally

tracked. Also, a global taxonomy should be utilized. Reliable and real-time systems which include different dashboards and drill-down capabilities are required. (Ghesquieres et al., 2017)

5. Organizational structure. The literature suggests considering a center-led pricing management model, with pricing experts who support pricing decisions but gives the final decision to sales. A steering committee for pricing should be built to manage critical decision and conflicts. The operating model should ensure that regardless of the final structure, necessary decision-making rights are described and responsibilities are distributed. (Liozu, 2012)
6. Pricing systems. This section described what would be the standard required elements and necessary capabilities for pricing systems. The operating model should ensure that the current pricing systems in the case company are utilized and operated as they are designed, all pricing documentation is linked to actual system capabilities and that all future development would be done based on a global perspective. The capabilities of reporting systems need to be evaluated and possibly developed further based on the designed and agreed metrics and KPIs. (Baker, Marn and Zawada, 2010).

Figure 7 illustrates the relations of the six different elements. Pricing strategy is the most important part of the framework as it defines the requirements and acts as a basis and provides guidance for other elements.

These elements act as the basis for the suggested operating model. The first suggestion will be built after the current state analysis is ready. The current state analysis will include a review of how these elements are currently adapted.

The case company's latest strategy has ruled that countries should have more power over their local decisions. Therefore, the amount of control for pricing by the central team needs to be decided by global management or preferably a global pricing steering committee.

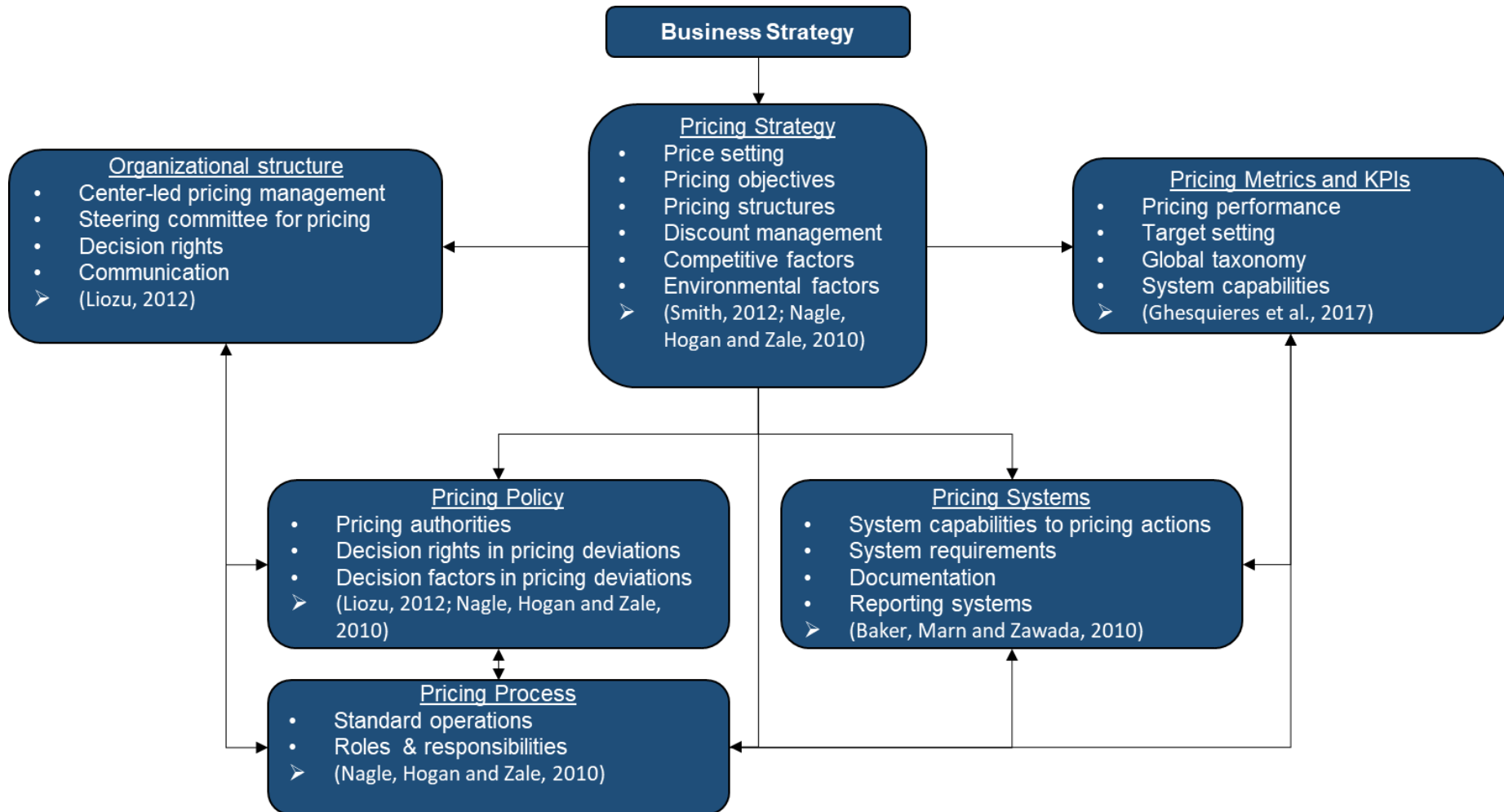


Figure 7. Conceptual framework.

4 Current state analysis

The current state analysis is done separately for each country and organization because the business and the organizations are different in all countries. The analysis will describe the overall business situation and different characteristics for each business area.

The main purpose of the analysis is to find out the differences in how the pricing is managed and controlled in the organizations and to find opportunities to improve pricing performance. This information will be utilized in the next phase when the first suggestion for the operating model is built. The analysis is particularly focusing on the Finnish organizations because the central pricing team is a part of the central organization, information and data is more widely available, and the area contributes around half of the company's income. The focus in the analysis of other countries is more in the differences in pricing activities compared to Finland and their impact on pricing performance. Especially in one organization, the basic processes and responsibilities are very similar in each country.

The analysis is based on information gathered from available documentation (e.g., strategy, process and policy descriptions), stakeholder interviews and available data in different systems as well as personal observations made while working in the global pricing development organization. The current state analysis also includes a pricing maturity assessment survey which was conducted based on pricing maturity assessment frameworks by European Pricing Platform (EPP) and PricewaterhouseCoopers (PwC). This assessment gives the opportunity to compare the results and level of maturity with global benchmark studies conducted by EPP.

The current state analysis will include:

- Overview of business in all countries (business units, main characteristics)
- Description of the current pricing strategy, policy, process, metrics, organization and systems
- Analysis of current pricing performance and issues
- +/- analysis of the current status
- Summary of identified key development areas, issues and positive findings related to pricing

4.1 Case company - region 1

4.1.1 Case company - 1

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Based on the current state analysis described in this section and in appendix 1, the following development areas, issues and positive findings were identified:

- The current level of customer segmentation especially in the B2B segment should be distributed to a more granular level. This would enable price discrimination which allows the stores to capture more value from different customer types.
- Existing discounting model is a significant threat to the designed changes in recommended retail price levels. However, the discounting decisions (as well as all final price decisions) are made by the stores thus making it hard to influence final decisions. Means to secure the stores' earnings when suggested price levels change need to be considered.
- Price calculations are mainly done on a cost-plus basis. The amount of value-based pricing should be increased.
- Cost updates between the pricing adjustment periods are done on an ad-hoc basis. Pricing should ensure that updates are clearly communicated and taken into account.
- There is no visibility to the actual price management process in the stores. The pricing capabilities and actions in stores are different.
- Pricing metrics and KPI's need to be defined and roles and responsibilities appointed. Designed and chosen metrics and KPI's have to be supported and easily available in systems.
- Management needs to decide how pricing performance should be tracked and if a pricing steering committee or relevant entity is necessary.
- Systems and tools are not ideal for managing pricing with this amount of complexity.
- Reporting functionalities are not on an adequate level compared to the growing need for price-related information and analyses.

4.1.2 Case company - 2

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Based on the current state analysis described in this section and in appendix 1, the following development areas, issues and positive findings were identified:

- Discount group pricing prevents the company from maximizing its revenue and margin because the discounts for different products in the same discount group have to be the same, e.g., all light bulbs are sold with the same discount level to customers in the same customer segmentation. Pricing the products individually would enable the company to gain more margin in less price sensitive products.
- Discount management would benefit from more control. Different options are available, e.g., limiting the maximum discount levels by role or establishing discounting policies which clearly indicate the cases when one-time discounts can be given. The focus should be on manual pricing, but customer-specific pricing policies should also be documented and applied to practice.
- Current management of price discrimination is not supporting the sales of known value items for all segments, e.g., work gloves are important to all customers and should be priced similarly for all to drive additional sales.
- Possibilities to move revenue from manual pricing to more lucrative pricing types should be investigated. Unwarranted discounts need to be separated from project sales.
- Margin is lost because logistic charges do not reflect or cover the costs. Creating a waterfall report would help identify cases where improvements are necessary.
- The pricing process has not been thoroughly documented, but some work descriptions exist. The process should be documented, and it should also reflect the cross-sales issues with other businesses.
- Product managers need more training in business processes and tools to be able to manage increased responsibilities.

4.2 Case company - region 2

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Based on the current state analysis described in this section and in appendix 1, the following development areas, issues and positive findings were identified:

- Capability to respond to competitors price changes is essential. Required decision points and possible actions should be clearly described.
- Usage of manual pricing is restricted to the customer responsible seller, but there is no documentation of the different scenarios when manual prices could or should be utilized. A standard approach to manual pricing might improve price consistency even more.
- The amount of manual pricing is much lower than in other regions. The large amount of sales from agreements can explain some part of it, but overall the best practices should be reviewed in all regions.
- Most of the large customers are using different cost calculators, and their purchase processes are more advanced than the sales processes.
- List price levels are reflecting the competition or market prices instead of being fixed. This approach should be discussed with other regions.
- Logistic costs and cost differentiation by region has been documented in customer agreements. Most countries are struggling with the recovery of logistic costs and could benefit from including them in the agreements and ensuring that deviations in agreements are tracked.
- Price simulations are done to ensure that target margins are achieved when customer-specific prices are calculated.
- Margin targets by customer segment could be utilized in other organizations.
- Discounts in project sales are aligned with the deal size. A similar approach could be utilized in other organizations.
- Pricing team is highly involved in cooperation with commerce and sales teams, which simplifies communication and eases the discussion of required improvements.
- Pricing team monitors that identified pricing errors and issues, e.g., sales with too low margin are fixed.
- Two new pricing tools have been developed to help manage the purchasing power of different customer chains. Need for these tools in other countries should be checked.

4.3 Case company - region 3

4.3.1 Case company - 1

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Based on the current state analysis described in this section and in appendix 1, the following development areas, issues and positive findings were identified:

- The case company needs a documented pricing strategy along with policies and processes. The global pricing policy documentation could be used as a starting point and should be aligned with local business strategy.
- New pricing tool has been implemented to help manage customer prices and cost changes. Requirements from other organizations should be investigated to find similar needs and decide on further development of the tool.
- B2B customer price lists could benefit from modeling customer behavior and increased price discrimination. At the moment the five different price lists are only representing five different price levels calculated by margin yield.
- The design of pricing metrics and KPIs needs to support both organizations with common metrics and measurement.
- New rule-based pricing system will help decrease the amount of pricing errors and pricing inconsistencies. The system requires more resources than currently is allocated.
- Resources in the pricing team should be reviewed, and enough capacity should be available for both organizations to ensure that global development actions are progressing.
- Training of cross-functions between the organizations should be designed and organized

4.3.2 Case company - 2

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Based on the current state analysis described in this section and in appendix 1, the following development areas, issues and positive findings were identified:

- The organization is undergoing a large business transformation, and a new business strategy is being built. Pricing should prepare to support the strategy design by building different analysis and suggestions.
- Pricing documentation was not available, or it was not up to date. Missing and outdated documentation can increase pricing errors and confusion of pricing responsibilities and pricing authority.
- Pricing structure between similar customer segments should be investigated to ensure that prices are aligned and calculated according to the value for each customer segment.
- Amount of sales from manual pricing is high. Increasing the use of system prices will improve the overall price reliability and free time from sales personnel. Unwarranted discounts should be separated from project sales.
- Cross-sales processes should be designed and implemented. Price management is a critical part of securing the trust of customers.
- No tools are available to manage list and customer prices. Utilization of the tools used in Finland should be investigated.

4.4 Case company - region 4

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Based on the current state analysis described in this section and in appendix 1, the following development areas, issues and positive findings were identified:

- The amount of manual sales compared to other countries is very high. Defining limitations for a quote to receive improved prices will help decrease the bidding workload. Understanding and measuring the win/loss ratios of offers will help improve overall margin.
- Projects should be defined. At the moment it is unclear when a quote is actually a project. Identifying and separating projects from regular quotes should increase the quality and success rate for project offers because the sales personnel can focus more on them.
- One development issue raised in Poland is the capability to monitor competitors' prices. This is problematic especially in the B2B trade as the final price for different customers is often not displayed publically. However, monitoring the base prices of retailers could be useful.
- Experiences from discount management by restricting the discount rights of sales personnel could be utilized in other countries.
- Logistic costs are hidden in product prices – while this is the case in other countries as well, the problem is largest in Poland. If this cannot be adjusted another report to follow up on customer profitability should be available.
- KPI's and metrics have been designed to monitor important performance issues. Some of these could be utilized globally, e.g., the share of sales on different order types.

4.5 Case company - region 5

Due to restrictions set by the case company, this page is available only for the instructors in a separate appendix.

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Based on the current state analysis described in this section and in appendix 1, the following development areas, issues and positive findings were identified:

- Design and documentation of pricing strategy, policies and processes should be generally improved
- Pricing does not have enough resources to increase overall pricing performance, pricing capabilities and utilization of new tools
- Improved pricing systems are required to support pricing decisions and actions
- Improved reporting tools are required to provide better insights to, e.g., customer profitability
- Further investigation of customer-specific price management in Baltics and assessment of practices should be done
- Sales personnel's incentives are mainly based on revenue and volume. A review of current incentives should be done, and preferably they should be shifted towards net margin.

4.6 Pricing maturity assessment

The questions and answer options are available in appendix 1. This paragraph describes the key findings from the assessment. Results from the assessment are included as key findings if one or more respondents have answered (1), or if the average of all answers is below the EPP's global survey average. Therefore, the findings listed below can relate only to one organization. However, there are different maturity levels, and each finding should be considered in the operating model.

- List price strategy has not been defined.
- The maturity of country-level pricing strategy varies.
- Level of customer segmentation varies.
- Product life cycle management is not considered in pricing strategy.
- The market value chain is not understood or mapped.
- Understanding customers' willingness to pay could be improved.
- The product pricing structure has inconsistencies.
- Discount policies need improvement and are not aligned with market standards.
- Contract compliance is not monitored.
- Price/value mapping is not a practice.

- Price elasticity is not considered.
- Price setting capabilities differ in organizations.
- List price updates are not managed consistently.
- Pricing reports are mainly done ad-hoc, and system capabilities are limited
- There are no price waterfall reports available
- Competitive price information is tracked ad hoc and is not available to sales.
- Sales teams' capabilities to sell products based on value instead of price is limited.
- Win/loss analysis of quotes is not systematic.
- There are different levels of pricing organizations - from no organization to teams managed by pricing director
- More training in pricing should be provided to pricing and sales personnel.
- There are no long-term plans to develop pricing capabilities.
- Pricing infrastructure is fragmented to different independent systems.
- There are no specific pricing systems used; prices are calculated in spreadsheets.
- Capabilities to use and understand current systems should be improved.
- Pricing data is incomplete or scattered in different systems.

4.7 Global perspective

According to the case company's new business strategy, countries have more control and responsibilities over their local actions. Some of the countries and organizations are already quite mature in price setting and pricing management, and some are still re-designing their overall country level business strategies. Because pricing is one of the core development areas in global strategy, it is important that it is also managed on a global level. Currently, there are two large global pricing projects ongoing, and both require large-scale business transformations to be able to fulfill the expected outcomes. Piloting of these projects are done in selected areas together with the system providers and consultants, and after the pilot, the global pricing team should be able to support the rest of countries with project implementation and business transformation.

At the moment, the pricing functions and responsibilities have been shared with the global and local pricing teams. The global team is responsible for:

- Global pricing process
 - Process descriptions and documentation
 - Support for local process owners
- Managing the global pricing community
- Collecting pricing requirements and development needs
- Developing global pricing KPI's and reports
- Managing the pricing development roadmap
- Sharing and supporting implementations of best practices
- Developing global pricing templates and tools
- Cooperation with global stakeholders

The local pricing teams are responsible for:

- Providing pricing support for business
 - Analyses and reports
 - Pricing insights to support decision making
 - Training and instructions
- Local process development and management
- Process descriptions and documentation
- Implementing global processes, systems and tools
- Cooperation with local stakeholders

A global pricing community has been established recently and first meetings have been held. The community includes pricing professional from all countries and organizations. The community will be responsible for identifying common requirements for future pricing development and sharing best practices and pricing issues across the organizations.

4.8 Summary and key findings

The operational performance and overall business situation in each country are very different. Some organizations are performing exceptionally well and are improving profits every year while some organizations are underperforming, and some have only recently been able to become profitable. The countries which have been struggling have done changes in management and are going through substantial operational changes. Especially for these countries, changes in pricing governance could be adapted at the same time as other business processes are being reviewed.

The current state analysis proves that all of the countries have pricing development needs and other issues in pricing performance. The level of pricing maturity is very different between the organizations, and some of them have not even appointed a pricing responsible person. A part of the findings have also been positive and demonstrate that there has not been enough cooperation between the organizations or for another reason best practices have not been shared. Therefore, sharing and promoting the best practices through the operating model will be one goal.

The new business strategy is providing countries with more decision power over their actions. However, all organizations are expected to develop their pricing performance. To be able to support the differences in country operations, the operating model needs to be flexible enough to allow adaptation, but it also needs to sustain a level of integrity to support global development and management.

The initial framework and the elements which were identified in chapter 3 proved to be valuable in identifying and organizing the findings. The six different elements will also be used in the next phase when the operating model will be designed. All the elements included critical findings which can be improved to increase overall pricing performance in all organizations. The most important finding is that a comprehensive pricing strategy is missing in most of the organizations and a model to create the strategy should be built. Directly linked to the strategy are other significant findings such as discount management issues, unclear processes and policies along with inefficient price reporting and organizational structure which does not fully support the development of pricing capabilities.

All findings in the current state analysis and pricing maturity assessment are listed in appendix 2 divided by the key elements in the conceptual framework. Table 7 summarizes the amount of different findings and key issues to be discussed. This list will be utilized in the next phase when the first suggestion for the operating model is designed.

Table 2. Findings by pricing element.

Related pricing element	Amount of findings	Key issues to consider in the suggestion
Pricing strategy	12	Alignment with business strategy, customer segmentation, pricing structure, customer / value understanding, documentation
Pricing policy	13	Discount management, alignment and structure between customer prices, manual pricing, project sales, contract compliance
Pricing process	17	Cost and list price updates, price management support, price discrimination, price elasticity, cross-sales between organizations, response to competition
Pricing metrics and KPIs	12	Definition of metrics and KPIs, global classification, total customer profitability, price waterfalls, competitive price information
Organizational structure	12	Responsibilities and accountabilities, management's role, resources, capabilities, trainings, communication, long-term planning
Pricing systems	13	Adaptation of new pricing tools (ongoing projects), reporting capabilities, data issues, support for decision making

5 Suggested operating model

The suggested operating model includes two main areas which were identified in the current state analysis. A common global operating model to manage pricing should be established, and after that necessary actions should be designed to ensure that all organizations are operating accordingly.

The suggested operating model describes the required pricing documentation and provides guidelines on how to build and maintain the documentation in all organizations. There should be standard requirements for all main documents which can be easily altered in the countries to support local needs and requirements. Therefore, an initial suggestion of the documentation and its contents by the different pricing elements is provided. The suggestion will also recommend how the operating model could be implemented and identifies possible change management needs.

The suggested operating model is based on the conceptual framework built on key elements from literature, and different findings including development issues and positive findings in the current state analysis. Some of the initial classifications of the findings will be altered in this phase; e.g., some issues concerning policies should be considered in pricing strategy.

5.1 Pricing strategy

Currently, most of the organizations are missing a comprehensive pricing strategy which is required to be able to practice consistent pricing and eventually increase pricing performance. This chapter will suggest the structure for pricing strategy and what should be included in the documentation.

The pricing strategy should be integrated into the strategic planning process. The decisions made in the overall business planning should be reflected in the pricing strategy, e.g., if a decision is made to invest in specific product categories or customer segments, it should be documented in the pricing strategy to ensure that pricing decisions are linked with business requirements. The documentation should provide an overview of the organizations pricing strategy, and supplementary documentation should be produced as necessary.

Price setting and pricing objectives should be described at least on the overall target level. In some countries, the case company is the market leader and should take advantage of its price leader position and price higher or neutral compared to the market. In some areas, the case company is a challenger and should decide if it competes with prices, or positions its pricing neutrally or even above market prices and uses other competitive advantages to drive profits.

The pricing strategy should describe the basics of customer segmentation and price discrimination. Customer prices should be aligned between different customer segments based on the customers' willingness to pay while identifying key products which are important for several customer segments. Managing prices by customer segment will generate more margin and value capture. Value mapping should be documented to describe the factors which contribute to the willingness to pay for different customers, e.g., some customers value product features, services and product reliability more than prices. These actions will eventually help move from cost-plus pricing towards value-based pricing.

Price setting related to product life cycle management should be defined. Various price points might be required during the different life cycle phases (development, growth, maturity and decline) as the demand changes.

List price strategy is an important part of the overall pricing strategy. Depending on the organization and region, customers are accustomed to different approaches. Possible choices for list price management are managing own list prices, using manufacturers' list prices or adapting to market prices. In some organizations, list prices can initially be set higher to allow bigger discounts, but the increasing transparency of consumer prices is changing the industry's pricing habits. Especially in the B2C organizations, list price strategy should be considered to follow market prices. Otherwise, they are at risk of losing customers who are not willing to or understand the possibility of price negotiations. Majority of B2C customers begin their shopping online, and if the initial price is too high, they will order elsewhere and will not come to the stores. In Norway, also the B2B business is using list prices which match competitors and the market with good results, even though it limits the capabilities to give discounts.

Discounting strategy is dependent on list price strategy because the list price strategy defines the possibilities to offer discounts. Especially when market prices are used as

list prices, the discounting strategy cannot support sales with high discounts. Therefore, the discounting strategy should be based on the list price strategy. For some organizations, the discounting strategy can be the mean by which customer prices are defined, and price discrimination is managed. In this case, the discounting strategy should be linked with customer segmentation. The discount strategy should describe normal situations when additional discounts can be offered to customers. These include, e.g., annual contract negotiations, responding to large tenders or investing in customers or products according to business strategy. Preferably, all discounting options and limitations and allowed (or disallowed) forms of discounting are documented. Limitations should be aligned to fixed factors, e.g., deal sizes, and, e.g., logistic costs could be disallowed from discounting.

Regardless of the chosen discounting strategy, a price window should be defined for all products, which determines the floor and ceiling price levels. All final prices should exist between these values based on the product's differential value for each customer segment.

Finally, the pricing strategy should define price setting and price reactions towards competitors. Competitive price positioning defines the level of price differentiation towards competitors. Price positioning towards competitors should be done on a general level as well as on product category and customer segment level, and alignment with the overall business strategy is essential. The price positioning should be utilized when initial prices are set. An important strategic choice is how to respond to competitors' price changes. Decisions should be based on the combination of the competitor's strategic position and cost of price reduction as described in paragraph 3.3.5 (figure 6).

Review of the pricing strategy documentation should be done annually and whenever changes to overall business strategy are done. The pricing strategy should be designed and approved by local management in cooperation with pricing team, sales and product management.

5.2 Pricing policies

Policies are a set of rules, practices or principles which can be applied repeatedly to support decision making. All pricing exceptions should be considered as a request to

build or change existing policy, and if there are a lot of similar requests, the overall price structure should be reviewed.

A key finding in the current state analysis was that most of the organizations struggle with unwarranted discounts. Unwarranted discounts should not be confused with strategic discounting, which aims to improve pricing consistency and price reliability. All discounting actions, which are done ad-hoc, should be considered as exceptions and the discount decision should be based on a documented policy. The discounting policy should include the criteria by which additional discounts can be granted, e.g., deal size, temporary market disruption, an opportunity for increased volume (ensuring trade-off between volume and margin is beneficial), and required authorization based on deal size and margin effect. If the pricing situation does not fulfill the criteria, the discount should not be granted. Policies should be strictly enforced, and no exceptions should be allowed. This will ensure that policies are developed according to long-term profitability and that they can be repeated. Price reliability will increase over time as customers understand that their price will not change depending on whom they discuss with. Discounting policy should be transparent and consistent for the sales and customers to accept them.

Manual pricing, which means setting prices manually instead of using system prices, was also an issue in most organizations because the amount of manual pricing is too high. Restricting or limiting the possibilities for manual overrides should be discussed in all organizations. In Norway, where the amount of manual sales is the smallest, sales are made more with system prices and especially customer-specific prices. These prices are usually more lucrative because more time has been invested in setting customer prices than would be used on one-time manual orders. However, setting the customer-specific prices should be done on a customer level, and copying prices from one customer to another should be prohibited.

Over time, as the pricing maturity increases, more policies should be designed for different situations, e.g., managing price increases, dealing with an economic downturn and managing promotions. While these policies are being designed, the factors suggested by Liozu in chapter 3.4 should be assessed and considered.

5.3 Pricing process

The pricing process should ultimately ensure that all prices are calculated based on the existing pricing strategy. Pricing process development requires a thorough understanding of the company's strategy, products, competitors, suppliers and customers. These requirements will keep growing in the future and become even more critical to the success of the company as pricing is becoming more complicated.

As indicated in the current state analysis, most of the organizations do not have up-to-date documentation of their pricing processes or they lack some of the important process areas. A global pricing guideline documentation exists, but there is no global process documentation. Global documentation should be done on a high-level ensuring that all required processes have been considered but leaving room for local adaptation and changes. Detailed process descriptions should be done on a local organization level only because there will be differences in most organizations due to business and environmental divergence. Requiring all the organizations to check their processes against the global process guidelines, ensures that all organizations have at least reviewed their own processes.

Defining the pricing process should begin by defining the major pricing activities, such as:

- Price setting
- Product price management, e.g., product roles and price elasticity
- Discount management
- Price discrimination
- Customer price negotiations
- Contract management
- List price management
- Price validation
- Project pricing
- Response to competitors price changes
- Price communication
- Pricing performance follow-up

Cross-sales processes should be defined in detail in Finland and Sweden between the two organizations. Problems exist especially in cases where a product manager is responsible for the same products in both organizations as there is no relevant documentation to support decision-making and describe required actions. A better understanding of processes would reduce pricing errors and could improve the pricing reliability towards customers if prices are more aligned in both organizations. Another issue which would benefit from a defined process is the sales process between different organizations. The price data is not updated simultaneously in different systems which causes pricing and invoicing errors.

After the processes have been defined, the focus should be on continuous improvement, as suggested in the literature. Review and improvement of pricing processes should focus on indicators which suggest that the process is not working effectively. These indicators include deviations from agreed price levels, unclear pricing authorities, non-standard customer requests, uncollected charges and write-offs and errors in pricing, order processing and fulfillment.

5.4 Organizational structure

The organizational structure has a huge impact on pricing management. Depending on the outcome, roles, responsibilities and accountabilities still need to be aligned to support the pricing strategy.

The suggested operating model is built on the assumption that each organization will have a dedicated pricing team. Depending on the size of the business, it can be only one person, especially in the organizations which do not have a dedicated pricing resource at the moment. However, as pricing is becoming more complex to manage, a team of pricing professionals operating in a center-supporting or center-led approach would be ideal. Most of the organizations are already operating in a similar model where pricing is supported and managed in different teams, but the final pricing decisions are done by sales. Based on the findings in the current state analysis and the literature, there is no need to change this approach, if the pricing policies and processes are designed to support the pricing strategy and the organization accepts and follows them.

The pricing team's main focus on the local level should be:

- supporting the design of pricing strategy
- defining and improving pricing policies and processes
- developing relevant tools
- managing pricing systems
- providing information and analysis for decision-making
- sharing pricing knowledge
- organizing training
- designing relevant KPIs and metrics
- monitoring and reporting of pricing performance
- intervening on pricing deviations
- long-term planning to improve pricing capabilities

Pricing resources should be aligned with the necessary actions in each organization. Availability of pricing personnel to participate in global pricing development projects should be secured.

Roles, responsibilities and accountabilities should be designed and aligned according to the organizational structure, pricing policies and pricing processes. Communication needs to be structured and clear.

The existing pricing community should continue to share knowledge between the different organizations and drive global pricing initiatives in the local organizations.

5.5 Pricing metrics and KPI's

One of the key success factors in the suggested operating model is to ensure that it is working as designed. Pricing metrics and KPIs need to be aligned with the pricing strategy, and track overall pricing performance as well as identify deviations and opportunities for improvement and corrective measures. The amount of KPIs should be kept as low as possible, to ensure that they are understood in the organization and that the focus is on the most important factors. However, other available and relevant pricing data should be collected and analyzed in the pricing team.

Metrics and KPIs should be designed to reflect pricing actions considering all organization levels and personnel. When measuring the performance of personnel, the KPIs should be chosen so that they can be influenced by these individuals.

Most of the organizations were already tracking basic performance indicators, such as sales and margin. Important KPIs which support the pricing strategy, policies and processes suggested in the operating model should be added to enable more control:

1. Usage of system prices vs. manual price. It is important to understand how much additional discounting is done and if changes are required in the pricing structure.
2. The discount amount by product and transaction is required to identify products with potentially wrong system prices. If a product is constantly discounted, the price level should be reviewed.
3. Deviations from agreed price levels should be tracked to ensure that pricing decisions are based on existing policies and guidelines.
4. Customer profitability should be tracked on a level which identifies possible needs to change the pricing structure, i.e., has the discounting switched to another form, such as free deliveries, from order discounts.

Also, the pricing team should track and ensure that metrics are available on a broader scale to be able to analyze pricing performance and provide insights to decision-making. These should include, e.g., acceptance of price changes, competitive price information, price elasticity, pricing errors, non-standard customer requests and uncollected charges.

5.6 Monitoring and reporting

The selected metrics and KPIs need to be easily available in the reporting systems. At the moment, the available reporting systems should already provide the capabilities to track the suggested metrics and KPIs. Some level of dashboard development is required to build different views to data, but actual system development should be limited, e.g., price waterfalls should be designed and utilized to offer better visualization of total customer profitability, and net price bands should be available to display price elasticity.

One issue to be decided is the need for global taxonomy. At the moment, some of the metrics are calculated differently, e.g., the net margin in some organizations includes more cost variables. From a pricing perspective, it is not restricting performance but can provide confusion in reports and makes it difficult to compare different organizations.

The reports are already available to different organization levels so that individual sales personnel can track their own performance compared to set targets. Same KPIs should be used in all different levels when the performance of individuals, sales teams, business units, stores or the whole organization is monitored.

The actual challenge in monitoring and reporting at the moment in most organizations is the lack of consistent follow-up of pricing actions. Performance is monitored only against budgeted sales and margin, and pricing actions are not considered as important. In the future, it is important to follow-up on the suggested KPIs on an individual level. Pricing performance monitoring should be a regular action point for everyone who is working directly with pricing.

Reporting channels and required actions should be designed. Tracking pricing performance does not resolve possible issues if they are not considered as improvement opportunities. Therefore, a regular review of pricing performance should be done by all sales managers who would then report their findings onwards to their supervisors. Necessary actions to manage deviations should be documented and followed up.

The pricing team should design a continuous reporting model which provides information to different stakeholders. Sales and product managers require different data and insights compared to top management. Reports should not only depict the status and development but offer analysis and suggest possibilities for improvement on a local and global scale.

5.7 Leadership and stakeholder engagement and support

Adapting to new ways of working can become a demanding cultural change. The literature analysis described pricing changes as a journey with many different obstacles and unseen challenges which need to be conquered.

The basic foundation for improvement has already been set, as pricing is one of the focus areas in the global business strategy. The strategy has forced each organization to consider its pricing actions and develop pricing performance. However, as the business strategy is transformed into pricing strategy and ultimately different pricing action plans, more support is required to drive change and resolve conflicts.

This operating model suggests that a pricing council should be built in each country. This council should be led by a senior manager and would include members from sales, commerce and pricing. The role of the council would be managing critical decisions, resolving conflicts and acting as a pricing steering committee. The role of this council is essential especially in the countries where both organizations operate because there will be complex issues to resolve in order to minimize competition between the organizations.

The pricing team has an important role in enforcing the pricing strategy, policies and processes. Identified issues and opportunities to improve should be presented and discussed in the pricing steering committee.

5.8 Pricing systems

The ongoing system development projects should be completed, and their realized ability to support pricing should be assessed to identify gaps in system capabilities. Also, the usage and know-how of the different pricing systems should be evaluated to ensure that the level of utilization is sufficient and that all benefits are sought.

The development of new and existing pricing systems should be driven by pricing strategy, and they need to be built to support the pricing process. Ideally, the pricing strategy could be used as input for the pricing system. A global control should be built to ensure that all organizations are using the same tools and that all development in pricing systems is commonly agreed and supported.

In the future, the requirements for pricing system development will increase, because the amount of available data to use in pricing is increasing and pricing operations are becoming more complex to manage.

5.9 Review process

The review process should be designed to consider two elements. First, the acceptance of the suggested operating model should be reviewed and estimated. Only after it is clear that the operating model is or is not in use, further development should be designed. The current suggested operating model is based on the findings in the current state analysis, but over time the requirements for pricing governance will evolve.

The key improvement for most organizations is to review or build the required documentation. If the suggested operating model is accepted and actions are designed, the first part to focus is on the maturity of completed documentation in different organizations. The acceptance of the operating model can also be reviewed by focusing on the findings in the current state analysis and comparing if the described findings have improved.

Over time as the business evolves, new ways of working will emerge, and they might require another approach for the operating model. Therefore, the suggestion is to review the relevance of the operating model annually comparing it with the actual pricing actions.

5.10 Summary

Pricing is a key element in the case company's global business strategy and has been identified as an area where improvements can be made. The global strategy has empowered all countries and organizations to construct their own business strategy and seek synergies where possible. The improvement of pricing capabilities and performance is one of the areas where synergies can be achieved because the pricing problems are similar and countries share the same systems and tools.

The suggested operating model for global pricing governance is based on the suggestion of utilizing globally designed pricing documentation and transforming it to match local business strategy and requirements. Relevant processes and policies are then defined and implemented, and pricing roles, accountabilities and decision-rights are designed and assigned. Pricing metrics and KPIs are planned and implemented to enable the monitoring of pricing performance and provide feedback of the operating model's effectiveness. Required business transformation actions should be planned to accommodate

changes in current operations, at minimum, communications and trainings should be ensured to all related stakeholders.

Pricing is supported by a dedicated pricing team in all countries. The pricing team is responsible for implementing and enforcing the operating model. All other pricing responsibilities will not be changed, e.g., cost and list prices are managed by product managers, and final sales prices are decided by sales according to new policies.

In the suggested operating model, the most significant change for most organizations would be the limitations to sales personnel's pricing rights. Adapting new policies which restrict the pricing freedom can be viewed as mistrust in the personnel's capabilities. Communicating this change should, therefore, focus on the fact that pricing rights are not limited as such, but instead of using unwarranted or ad-hoc discounts, the prices should be agreed and viewed on a long-term basis, i.e., instead of one-time pricing actions, changing the system price needs to be considered. This will eventually improve the overall pricing image and price consistency of the company as the customers start trusting that the system prices will not be altered.

Ensuring that the system prices are on the right level for each customer segment is essential for the sales personnel's acceptance. If they constantly have to enter into price negotiations where their decision-making rights are limited, they will turn against the change. On the other hand, if they find that the prices are on the right level, they will start trusting the system prices. Discussions regarding the correct price levels between different departments can lead to a situation where decision-making needs to be escalated. The suggestion is that a pricing council would be formed to ensure that pricing decisions are based on the pricing strategy and possible conflicts are solved.

A review of the operating model should be conducted annually after implementation. Possible change requirements in the operating model and pricing systems should be identified and assessed both locally and globally.

The suggested operating model is divided to six different elements as illustrated in figure 8. Implementation of the model should be done in phases from 1 to 6 to ensure alignment of different elements.

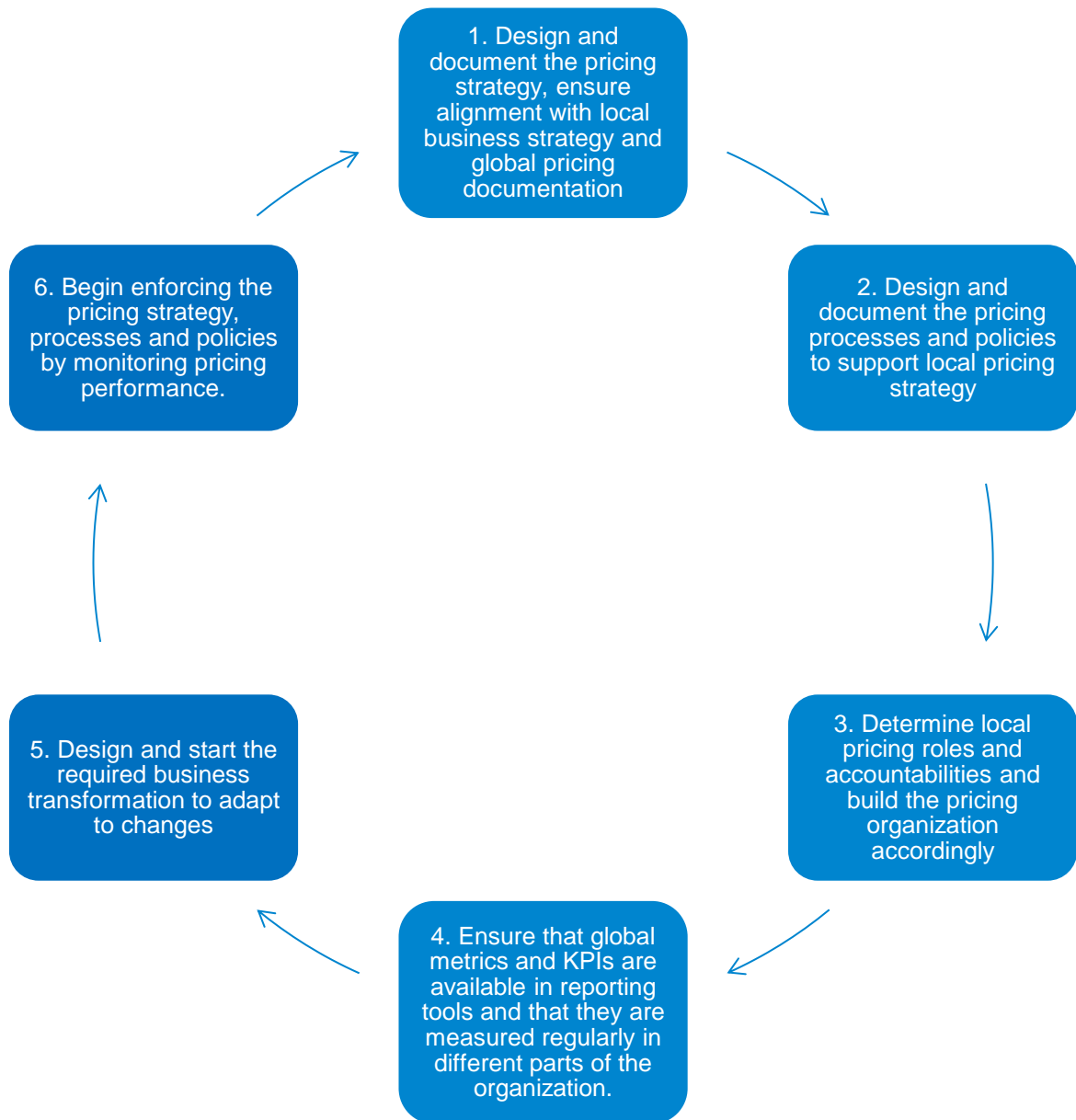


Figure 8. The suggested operating model

6 Feedback validation of the operating model

The validation of the suggested operating model was conducted in a meeting with key stakeholders responsible for pricing development and global pricing management. The validation was done from a global perspective, and some local level findings were highlighted. The suggested operating model was first presented and then discussed in detail to gather feedback and validate the suggestions.

The validation process follows the structure of the conceptual framework which the suggested operating model is based on. The findings of each element in the framework were introduced and discussed in detail. Finally, after all the elements were discussed, the overall applicability and value were assessed.

The validation was done based on the original objective of the thesis to build an operating model which could be implemented in the case company to improve global pricing governance. The validation focuses on discussing the practical applicability and usefulness of the suggested operating model.

6.1 Pricing strategy

The pricing strategy was initially designed to be out of scope and was added after the first discussions of the objectives and scope of the thesis with the case company's instructors. Because the pricing strategy was already considered to be an important part of the thesis, the findings and suggestions were discussed and iterated during the thesis process.

The suggestion of requiring a documented pricing strategy for each organization was considered to be an important factor for pricing management both on a local and global level. A template for the pricing strategy with all the required and suggested contents should be designed to ensure that all organizations are considering and documenting relevant and actionable strategic pricing choices. The pricing strategy should be validated in all organizations by the top management to ensure alignment with the overall business strategy.

6.2 Pricing policy

Documenting and enforcing pricing policies was considered to be a key element in increasing pricing governance and overall pricing performance. Because the current state analysis shows that suggested policies have been successfully implemented in some of the organizations, it should be possible to share the best practices.

The operating model suggests focusing on building policies to counter specific identified issues in discount management and manual pricing. In addition to these, all current and undocumented policies or common practicalities which deviate from standard processes should be documented and enforced. This ensures that the organization manages exceptions similarly in all business areas and does not allow double standards.

A summary of the identified issues, where policies could be beneficial, should be drafted to ensure that all organizations have considered the possible pain points in their pricing process. All policies which affect the pricing rights of sales personnel should be reviewed and accepted by top management to ensure that communication and possible business transformation is managed at the correct level.

6.3 Pricing process

All organizations must have a documented pricing process to ensure that all pricing activities are based on the pricing strategy. As suggested in the operating model, high-level global process documentation should be done to ensure that all related processes have been considered and documented. The suggested initial pricing activities were considered to be a good starting point for the documentation. Local adaptation is important because all organizations have some differences in their pricing activities.

The documentation should be done on a level which ensures that the processes can be clearly communicated to all relevant parties. From a global point of view, there is no need to build detailed process descriptions if they do not provide any value. Instead, e.g., SIPOC (suppliers, inputs, process, outputs and customer) diagrams or equivalent could be utilized.

Defining the cross-sales processes between the organizations is especially important to ensure that all possible synergies are gained.

6.4 Organization structure

The organizational structure was considered to be an interesting and important part of the suggested operating model. At the moment, the pricing teams in almost all organizations lack human resources to be able to support all ongoing pricing activities and development work. From a global perspective, participation in global projects, e.g., implementation of new global pricing tools, should be secured.

The decision of how the local pricing organization is structured is made in each organization. The suggestion of building a dedicated center-supporting or center-led pricing team in each organization was regarded as a good approach for all organizations in the current situation. Also, the suggested actions for the pricing team were approved. However, the local organization will decide how to appoint and manage decision-making rights.

The discussion also considered the communication of pricing responsibilities and decision-making rights. In some cases, where several parties are involved in price management, e.g., managing price settings in systems, the responsibilities are unclear. A simplified list of all pricing actions with responsible actors could be beneficial.

6.5 Pricing metrics and KPIs

In addition to the suggestions of the operating model, global pricing metrics and KPIs should be designed to follow up on the changes in pricing performance on a global level. These should include a few key values, e.g., sales, margin and amount of discounts to measure the overall pricing performance.

A suggestion of relevant metrics and KPIs should be included in the template for the pricing strategy. The final metrics and KPI's should be decided by each organization based on their documented pricing strategy.

6.6 Monitoring and reporting

Development of new dashboards, which have improved capabilities in data visualization, is considered to be one of the key development areas in the case company. Work has already started on designing and piloting new reporting tools, and some initial testing has

already been done with other business areas. Pricing will eventually follow, and the suggestions will provide valuable information for that work.

Overall the suggestion to design standard monitoring and reporting templates and schedules was welcomed. At the moment, pricing reporting is done mainly ad-hoc, and there is a lack of consistency in the layouts and outputs of different reports.

The reporting channels should include an interface between local and global pricing teams to ensure that reports are available to global management if required.

6.7 Leadership and stakeholder engagement

Leadership and stakeholder engagement is one of the more controversial elements in the operating model. While the discussion was unanimous that managerial support is necessary, the practical implication needs to be further discussed with top management. The requirement for their involvement needs to be justified in more detail. This could be possibly done with specific case examples or analysis of lost sales due to pricing inconsistencies.

The approach in the suggested operating model was considered to be good, and involving different parties in the pricing council will help resolve issues. One pricing project already has a global steering committee, which could possibly be expanded in the future to handle all pricing related issues. Some of the participants in the steering committee have already discussed the possibility to continue the pricing discussions after the project is completed, as they have seen the value of sharing best practices.

6.8 Pricing systems

The development of pricing systems should be done jointly by all organizations. The IT development budget is common, and all development should focus on tools which bring benefits to all organizations. Development of tools for only one organization should be approved by all others. At the moment, some development is requested without considering the tools already available in other organizations.

From a pricing perspective, the suggestion is valid. The amount of development is increasing, and the pricing systems are becoming more complex. Therefore, the pricing

systems in all organizations have to be the same, to enable global support and sharing of best practices.

6.9 Overall adaptability and benefits of the suggested operating model

After all the different elements were discussed and validated, the adaptability and possible benefits from using the operating model were discussed in a free form discussion. Based on the discussion and feedback, the model could be implemented in all organizations with local resources and global support, after the global documentation and guidelines are completed.

The value is seen especially in the overall connection with business strategy and business decisions which guide the decision-making actions in pricing. Internally, the use of resources, tools and systems should become more efficient if the operating model is adopted. This can lead to more optimized and consistent pricing and have a positive impact on margin. Externally, the value for customers can be seen in the improved reliability of the pricing, i.e., the price level can always be trusted, and the same price is available in all sales channels.

The main benefits of the suggested operating model are:

- Pricing strategy is aligned with business strategy
- Pricing documentation is available in all countries
- Increased visibility into pricing decisions and pricing performance
- All pricing decisions can be linked to pricing strategy
- Pricing is supported by a dedicated pricing team
- Improved usage of resources
- Decision-rights are based on documented policies
- Improved pricing image
- Consistent prices in all channels

6.10 Summary and final suggestion

The objective of this thesis was to design an operating model for the case company's central pricing unit to be able to implement global pricing governance. Because the global

strategy has given more decision power to the countries, the suggested operating model was designed so that it can be applied and adapted to local pricing requirements.

Because of constant discussions with business during the thesis process, the validation by feedback was estimated to provide little change in the suggested operating model. Hence, the validation focused on the practical application and required additional steps to move forward with the implementation of the operating model. In addition to the suggested operating model, identified requirements were:

- Creating a template for the pricing strategy with all the required and suggested contents
- The pricing strategy should be validated in all organizations by the top management to ensure alignment with the overall business strategy
- A summary of the identified issues, where policies could be beneficial, should be drafted to ensure that all organizations have considered the possible pain points in their pricing process
- All policies which affect the pricing rights of sales personnel should be reviewed and accepted by top management
- High-Level global process documentation should be done to ensure that all related processes have been considered and documented
- Improve communication of pricing responsibilities and decision-making rights
- Create a simplified list of all pricing actions with responsible actors
- A suggestion of relevant metrics and KPIs should be included in the template for the pricing strategy
- The reporting channels should include an interface between local and global pricing teams
- Discuss the possibility to appoint the pricing steering committee based on a current project steering committee

7 Discussion and conclusions

This section contains the summary of the thesis, next step recommendations and an evaluation of the study and its credibility.

7.1 Summary

The case company is a Finnish trading sector company with operations in eight countries. The company includes a centralized unit responsible for global pricing coordination and development of related tools and processes. The central organization does not have a thorough understanding of how pricing is done in different organizations and countries and the need for global pricing governance has been identified.

The objective of this thesis was to build an operating model for global pricing governance. A secondary goal was to divide the operating model into different actionable elements which can be executed independently. The thesis consists of three main parts:

1. The conceptual framework for pricing governance was drafted from the literature
2. The conceptual framework was applied to current state analysis to find key improvement areas.
3. The suggested operating model was built based on the conceptual framework and findings from the current state analysis

The pricing governance framework is based on six elements which were identified from literature as key factors for pricing governance. These elements are:

- Pricing strategy
- Pricing policy
- Pricing process
- Pricing metrics and key performance indicators (KPIs)
- Organizational structure
- Pricing systems

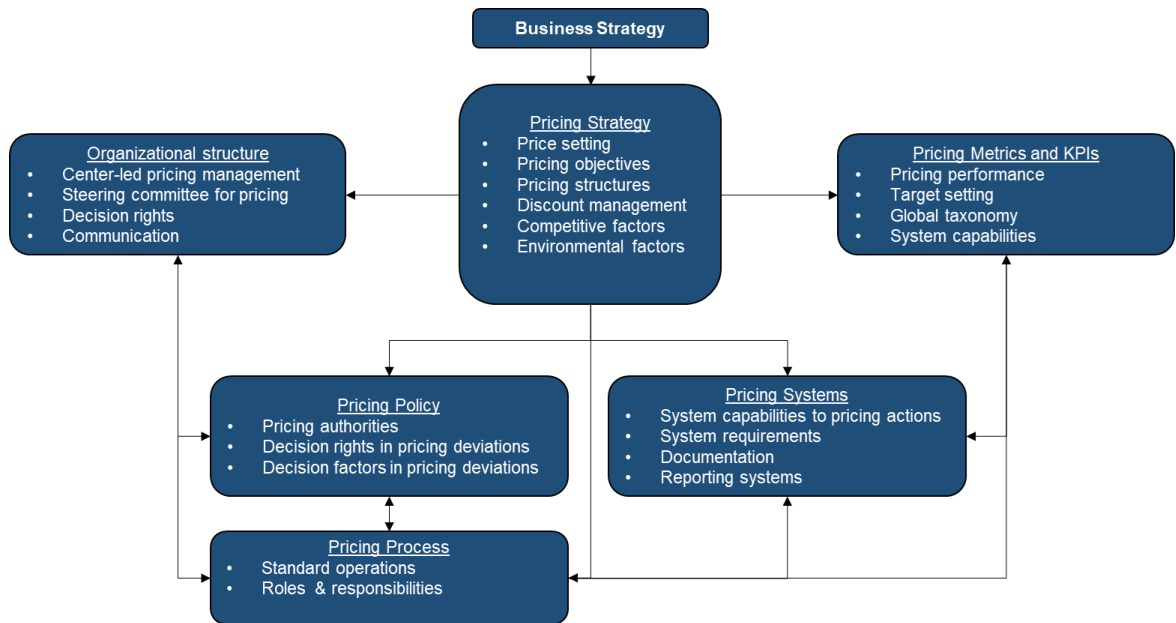


Figure 9. Conceptual framework

Figure 9 illustrates the conceptual framework, which is explained in detail in chapter 3.9. The key concept is that pricing strategy is linked directly with the overall business strategy and provides information and requirements to other interconnected pricing elements.

The framework was applied in the current state analysis, which was done separately for each country and organization because the business and the organizations are different in all countries. The main purpose of the analysis was to find out the differences in how the pricing is managed and controlled in the organizations and to find opportunities to improve pricing performance.

The analysis was based on information gathered from available documentation (e.g., strategy, process and policy descriptions), stakeholder interviews and available data in different systems as well as personal observations. The current state analysis also included a pricing maturity assessment survey. Overall, the current state analysis included:

- Overview of business in all countries (business units, main characteristics)
- Description of the current pricing strategy, policy, process, metrics, organization and systems
- Analysis of current pricing performance and issues
- +/- analysis of the current status

- Summary of identified key development areas, issues and positive findings related to pricing

The most important finding was that a comprehensive pricing strategy is missing in most of the organizations and a model to create the strategy should be built. Directly linked with the strategy, are other significant findings such as discount management issues, unclear processes and policies along with inefficient price reporting and organizational structure which does not fully support the development of pricing capabilities.

After the current state analysis, the suggested operating model was built based on the conceptual framework for pricing governance and the findings in the current state analysis.

The suggested operating model described the required pricing documentation and provided guidelines on how to build and maintain the documentation in all organizations. The suggested operating model provided an initial suggestion of the documentation and its contents related to the different pricing elements. The suggestion also provided recommendations on how the operating model could be implemented and identified possible change management needs.

The main benefits of the suggested operating model are:

- Pricing strategy is aligned with business strategy
- Pricing documentation is available in all countries
- Increased visibility into pricing decisions and pricing performance
- All pricing decisions can be linked to pricing strategy
- Pricing is supported by a dedicated pricing team
- Improved usage of resources
- Decision-rights are based on documented policies
- Improved pricing image
- Consistent prices in all channels

The final operating is shown in figure 10. Implementation of the model should be done in phases from 1 to 6.

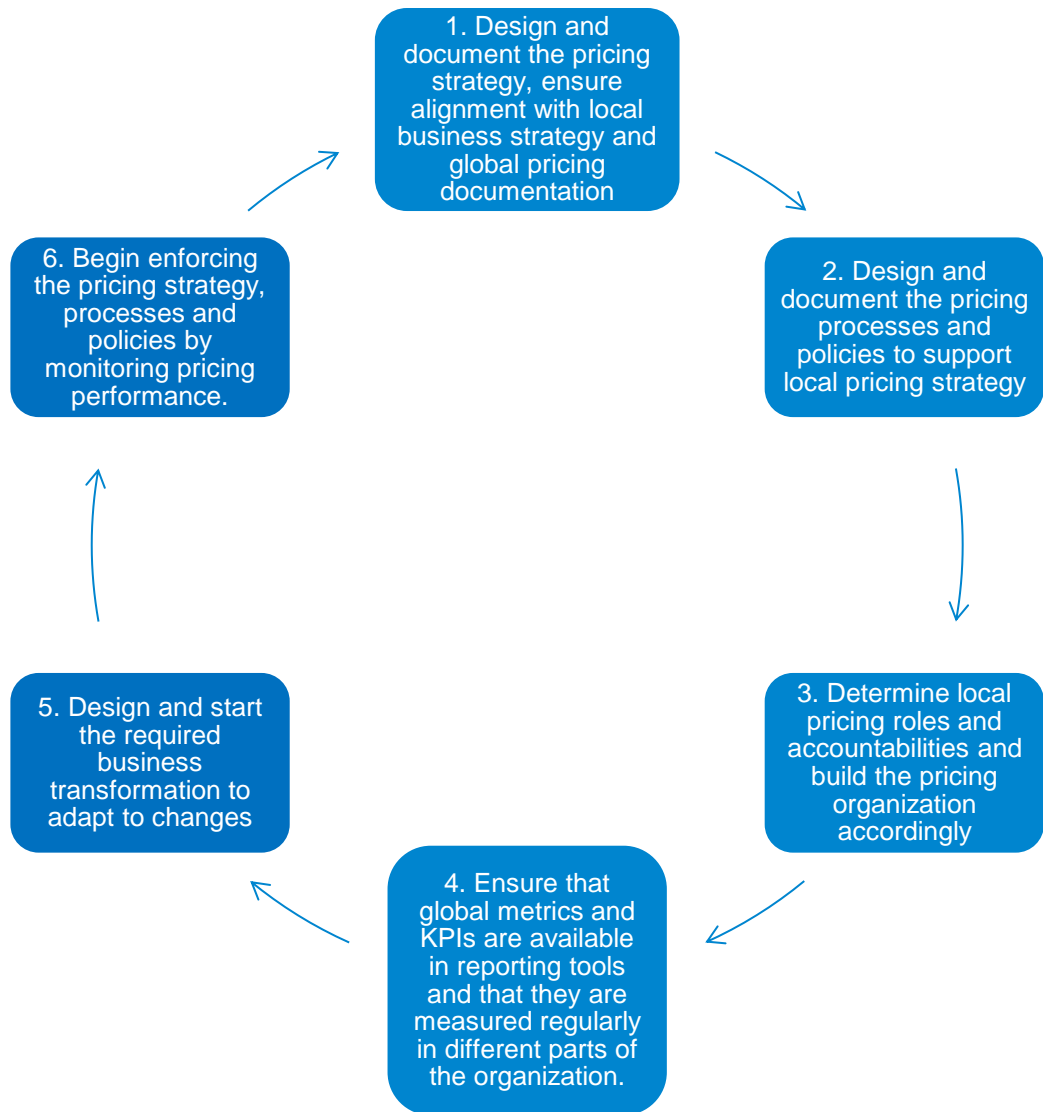


Figure 10. The final operating model

The suggested operating model was validated in a feedback session with key stakeholders in pricing. The final suggestion follows the initial suggestion with some minor additions including pre-designed templates for documentation.

7.2 Next step recommendations

First, it should be decided if the operating model would be implemented as a global project with global project management, or if each organization will adapt the operating model themselves according to global guidance.

Discussions of the final operating model and its adaptation should be started with all organizations and their pricing teams. Good timing for this would be in the upcoming pricing community meetings as well as in the next steering committee meeting for the ongoing pricing project to ensure that communication is ongoing at the managerial level as well.

The global pricing team should start building the requested supporting materials, e.g., general level templates for pricing strategy, and suggested policies.

7.3 Evaluation of project trustworthiness

The trustworthiness of the project was evaluated based on the model suggested by Shenton (2004). Shenton describes four key criteria which the assessment is based on; credibility, transferability, dependability and confirmability. Credibility assesses the study measures and tests and refers to the degree of significance of the findings. Transferability evaluates the applicability of the findings to other situations by describing how data collection was done. Dependability assesses the reliability, consistency and accuracy of the study. Confirmability describes how the findings can be tracked to their origins – the “audit trail.”

Table 8 includes the assessment of the thesis project based on Shenton’s model. Based on the evaluation of each criterion, it is reasonable to consider that the trustworthiness of this thesis is at an adequate level.

Table 3.

Credibility	Applicability in this thesis
Adoption of appropriate, well recognised research methods	The qualitative research method was applied as interviews, limited surveys and assessment of documentation.
Development of early familiarity with culture of participating organizations	The researcher and all participants were employed at the case company in a pricing or managerial role.
Random sampling of individuals serving as informants	Not applied, as detailed knowledge was required from informants.
Triangulation via use of different methods, different types of informants and different sites	Informants represented local pricing experts and managers from commerce and sales. In addition to interviews and group discussions, a survey was conducted and existing documentation was compared to other findings. When applicable, data available in reporting systems was utilized to confirm findings.
Tactics to help ensure honesty in informants	Most of the interviews and group discussions were done parallel to an ongoing pricing project. Different applied methods provided similar information.
Iterative questioning in data collection dialogues	The survey in the current state analysis was based on an existing survey by a third party which is used as an industry standard. The survey was complemented by questions reflecting the issues in the case company. The survey was conducted after the first interviews and identified gaps in the research were included.
Negative case analysis	Not applied.

Debriefing sessions between researcher and superiors	Informal discussions were conducted with the case company's thesis instructors after the framework was designed, and after the interviews and survey were completed in the current state analysis.
Peer scrutiny of project	The case company's instructors reviewed the thesis before the final release. The thesis project was presented to other Master's degree students.
Use of "reflective commentary"	Not applied as such. Patterns of similar ways of working and identified issues were recognized during the current state analysis.
Description of background, qualifications and experience of the researcher	The researcher has worked in the case company for 18 months and has over ten years of experience in the subject matter.
Member checks of data collected and interpretations/theories formed	The findings from the pricing survey were discussed in a pricing community meeting where all survey informants were present. Interpretations and theories were discussed with the thesis instructors.
Thick description of phenomenon under scrutiny	Described in chapter 3, where a pricing framework was built from literature. The framework was then applied in the current state analysis.
Examination of previous research to frame findings	The pricing framework was built based on the best practices from literature.
Transferability	Applicability in this thesis
The number of organizations taking part in the study and where they are based	Two organizations based in seven countries (Baltics countries considered as one entity).

	Both organizations are a part of the same company and division but act as separate organizations and business units.
Any restrictions on the type of people who contributed data.	All informants had experience of the subject matter.
The number of participants involved in the fieldwork.	One researcher.
The data collection methods that were employed.	Interviews, surveys, reviews of documentation and data in BI systems.
The number and length of the data collection sessions.	Several interviews and group discussions were done parallel to an ongoing pricing project. One survey was conducted and relevant documentation was reviewed from all organizations. Data analysis was conducted to confirm findings.
The time period over which the data was collected.	3/2018 – 11/2018
Dependability	Applicability in this thesis
The research design and its implementation, describing what was planned and executed on a strategic level.	The research design is presented in chapter 2.2. The research was conducted according to the design. Early in the process, the literature research was decided to be done before the current state analysis.
The operational detail of data gathering, addressing the minutiae of what was done in the field.	Data collection plan is presented in chapter 2.3 in detail. Application of the data plan is presented in chapter 4.
Reflective appraisal of the project, evaluating the effectiveness of the process of inquiry undertaken.	The trustworthiness of the project is evaluated in chapter 7.3. The evaluation of the thesis process is available in chapter 7.4.

Confirmability	Applicability in this thesis
Triangulation to reduce effect of investigator bias	Findings and theories were discussed with instructors after each chapter of this thesis.
Admission of researcher's beliefs and assumptions	The researcher's beliefs and assumptions were limited and validated by data.
Recognition of shortcomings in study's methods and their potential effects	The operational environment has changed during the data collection period and the completion of the suggested operating model because of divestments and strategic changes. The CSA process was not reviewed after that. Because the outcome of the thesis is presented on a general and highly applicable level, the impact is minor.
In-depth methodological description to allow integrity of research results to be scrutinized	The research methods are described in chapter 2.1.
Use of diagrams to demonstrate "audit trail"	The data plan is described in chapter 2.3. The current state analysis and final outcome reflects the initial framework design and each element can be tracked as a separate matter.

7.4 Personal evaluation and reflection of the Thesis

This thesis project has overall been a demanding but also an extremely rewarding project. The project began only a few weeks after I started in a new position at a new employer in a totally different industry. Therefore, it was also a great learning process and has helped me familiarize myself with the relevant stakeholders in the whole organization. At the same time, I have learned about the industry's pricing operations as well as the differences between business units and country operations (which were not documented from a pricing point of view). A new development manager in the pricing unit stated that the current state analysis also helped her to gain an understanding of the basic pricing environment in all organizations. However, longer experience in the case

company could have helped as the informants and their responsibilities would have been more familiar, and the discussions could have been more open.

Some issues were encountered during the thesis process, and especially the scope proved to be problematic. In the first discussions with the case company's instructors, the whole concept of a strategic approach was included in the scope. The scope was already initially quite large and discussions were held where possible changes were discussed and estimated in the case company. One possibility was to limit the amount of organizations in the current state analysis to include only the organizations in Finland. In retrospect, it would have had some influence on the final outcome, because some of the best practices which were included in the suggested operating model were in use in other countries. However, the operating model would probably have all the same elements, and only some suggested details would be missed. Another option would have been to focus only on one specific element in the framework, but that would have changed the whole approach and would have altered the business challenge. In the end, the scope was kept as it is now presented in this thesis.

Another challenge was the redesign of the global business strategy which influenced the whole company including all organizations. The strategy redesign was done during the spring of 2018. This had some effect on the thesis process as the organizations were partly redesigned and the local organizations gained more power in decision-making. For a few months, the role of the global pricing team was unclear, and therefore little progress was made regarding the thesis. In the end, the role did not change dramatically, but the level of future cooperation could still be clarified further by management.

The research design approach was helpful and once the plans were designed and confirmed, related actions were easy to begin. The common approach is first to conduct the current state analysis and then work on the literature and existing knowledge. In my case, I decided to switch these parts around to be able first to design the framework which would then guide the CSA process. This decision helped identify and focus on the relevant issues to research further. In the end, the initial framework was utilized in all later parts of the thesis.

The current state analysis took a long time to complete. Because the scope included all organizations in different countries, it was designed to be done parallel to an ongoing pricing project. This enabled me to have face-to-face meetings with all informants and

combine the interview sessions with regular project meetings. The project meetings often included top management from all organizations, and valuable information and feedback were given by them. After the interviews were completed, some information was still missing from the current state analysis. Therefore, a survey was conducted to gather the missing information and validate the existing findings. Data was gathered from BI systems to validate assumptions and findings regarding pricing behavior and control.

The suggested operating model was drafted based on the designed framework and findings in the current state analysis. The goal was to keep the operating model simple enough so that it could be utilized while ensuring that it brings value and focuses on the identified key issues in pricing performance. Based on my personal feeling and the discussions in the validation process, this target was achieved. However, the actual realization of the value is dependent on how the organizations will adapt and accept the operating model.

During the validation discussion, other possible applications for the thesis were discovered. The work could be utilized as a step-by-step framework for pricing development in almost any organization, it could be utilized to provide reasoning for resourcing and change requirements, and it could help guide the discussion of possible pricing related change management in the organization.

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Pricing maturity assessment

The survey was sent out to all members of the global pricing community. A total of seven answers were received and all countries were represented in the outcome. Pages 1-12 in this appendix describe the initial questions and answer choices. A summary of the results compared with global results from EPP's survey is presented on the last page. The answer options from 1-4 represent different levels of pricing maturity.

The survey is based on pricing maturity assessments by European Pricing Platform (2017) and PricewaterhouseCoopers (2014).

Questions and answer options:

Background				
Number of years in a Pricing function	< 2 years	2-5 years	5-10 years	> 10 years
How many people work exclusively on pricing in your company?	1-3	3-7	7-15	> 15
Choose country	List			
Choose organization	List			

Pricing Organization	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
Which level best describes the pricing organisation?	<i>1 - No pricing organisation is defined, pricing is done adhoc and by different departments (mainly sales or product management driven).</i>	<i>2 - Pricing is centralised or assigned to a specific department (clear point-ofcontacts), indirectly reporting the CFO.</i>	<i>3 - Pricing organisation is set up with dedicated people and a VP pricing) reporting to the CCO/CMO.</i>	<i>4 - Pricing role is present in the leadership team (Chief Pricing Officer) and reports directly to the CEO.</i>
How would you rate your organizational pricing maturity ?	<i>1 - List prices are set by product management, but market pricing is mainly owned by sales. Price setting is cost plus/market based. We are very volume driven.</i>	<i>2 - Pricing is very much seen as a margin optimisation project driven by the finance department. Price setting remains mainly cost plus and the pricing team works very often in a silo.</i>	<i>3 - Pricing is embedded in the commercial processes, reporting to the commercial department. Value based pricing is done were possible. Pricing is aligned with marketing, finance and sales for optimal value pricing, value communication and value</i>	<i>4 - Pricing plays a key role in developing new revenue and business models and is seen a major shareholders' value driver. A VP Pricing is reporting directly to the CEO.</i>
How strong are your pricing capabilities in terms of people ?	<i>1 - Little or no specific training on improving front-line pricing skills and performance exists.</i>	<i>2 - Most individuals with a role in pricing have been through a (in-house or open) pricing training program; the learning program receives good reviews and has some positive impact on behavior.</i>	<i>3 - Everyone with a role in pricing received comprehensive in-house pricing training (e.g., sales manager, both experienced and new sales reps); multiple venues used to reinforce good pricing (e.g., sales meetings, one-on-one coaching, joint sales calls,</i>	<i>4 - Pricing seen as a strategic area, centralized highly skilled and experienced team of experts and strategic management; continuous exchange of the pricing team with external organisations and experts.</i>
Do you have a long term pricing capability development plan ?	<i>1 - There is no vision how to further develop the pricing skills/maturity in the organisation.</i>	<i>2 - The core pricing team has been trained to evaluate the organisational pricing maturity and developed a pricing action plan for the next year.</i>	<i>3 - The pricing team has a clear picture of the pricing maturity. They have defined the future status and a 3-years planning to reach the desired pricing maturity.</i>	<i>4 - Pricing maturity seen as an enabler to develop, implement and support of new go-to-market strategies and concepts; seen as a competitive advantage and as an opportunity to outperform competition</i>

Forecasting	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
To what degree are industry and market trends monitored?	<i>No mapping of market or industry trends, only information on the current state of the industry and market is available</i>	<i>Basic market research on the future state of the market (e.g. market size and potential). Mostly performed as a yearly exercise.</i>	<i>Elaborate industry and market research, executed periodically (e.g. assessing the latest technology trends).</i>	<i>Ongoing extensive industry research based on different sources: primary and secondary, quantitative and qualitative.</i>
Which demand is forecasted?	<i>Short term focus, market demand taken as given.</i>	<i>Market demand across all customers is forecast.</i>	<i>Customer level demand is forecast for the most important customers.</i>	<i>In addition to existing customers, the demand of potentials prospects is estimated</i>
How is the demand forecast determined?	<i>Demand is forecasted by applying arbitrary rules (e.g. last year's sales + 2%).</i>	<i>Market insights from the sales departments are the most important input for demand forecasting.</i>	<i>Sales insights are combined with statistical methods to forecast the demand. The forecasting is a combined S&OP and sales effort.</i>	<i>Analytics, sales input and external resources are combined to form a comprehensive demand forecast.</i>
Are cost updates handled frequently and assessed appropriately?	<i>Cost updates are unscheduled or adhoc. The impact they have on price or profit is not always evaluated.</i>	<i>Cost updates are executed annually supported by a basic general impact analysis.</i>	<i>Quarterly cost updates are combined with a profitability analysis on a higher level (e.g. product group). Ad hoc consideration of competitors</i>	<i>Periodical cost updates are linked with a detailed impact analysis on contribution and profit. Active assessment of competitive dynamics</i>
How is capacity planning incorporated in pricing?	<i>Capacity planning follows broad market demand and supply assessment -- no impact on pricing decisions</i>	<i>Capacity planning follows broad market demand and supply assessments; immediate short and long capacity positions shape price rises and falls (marginal cost pricing).</i>	<i>Capacity planning and broad pricing strategy aligned – with tight controls on marginal cost pricing in long capacity situations.</i>	<i>Capacity planning over multiple time horizons, with pro-active pricing strategy by contract date to avoid excessive long and short positions over medium and long term.</i>

Customers	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
How are customers mapped?	<i>No systematic mapping – largest customers and prospects are well known, others informally known through sales representatives.</i>	<i>Largest customers and potential customers are systematically mapped and recorded and assigned to individual representatives.</i>	<i>All customers and potential customers are mapped using a market wide data set on businesses and organisations.</i>	<i>All customers and potential customers are mapped using several data sets on businesses and organisations, where additional data used to support segmentation.</i>
To what degree is customer profitability monitored?	<i>Customer segment profitability is not tracked.</i>	<i>Customer profitability is only tracked on request or when disruptions occur.</i>	<i>Customer segment profitability is tracked on a regular basis leveraging past performance</i>	<i>Individual customer profitability is tracked frequently. Customer life time value has been developed and informs decision making</i>
How is the customer relationship managed?	<i>Ad hoc, account representatives assigned to customers and potential customers based on history or preferences.</i>	<i>Some organisation of account representatives and coverage, with largest customers having 1:1 coverage and smaller customers and prospects 1:many coverage.</i>	<i>Clear relationship segmentation by size, with account representatives assigned mix of large, medium, and small current and prospective accounts by expected workload for each.</i>	<i>Specialisation of account representatives based on prospective and current customer account management and by size of organisation.</i>
How is the customer diversity mapped?	<i>Informal understanding of how customers and prospective customers differ but not used in sales approach or pricing.</i>	<i>Documented understanding of how customers and prospective customers use product, but not incorporated into sales approach or pricing.</i>	<i>Documented understanding of how customers and prospective customers use product, tailored sales approach and pricing based on these segments.</i>	<i>Comprehensive knowledge of customers based on how they use product and overall customer value, both used in tailored sales approach and pricing.</i>
To what extent are insights into customer preferences gathered?	<i>No understanding of customer preferences.</i>	<i>Basic understanding of general customer segment preferences (mainly focused at price and product).</i>	<i>Basic preferences of customer are understood (mainly focused at price and the core product).</i>	<i>Elaborate understanding of customer preferences (e.g. packaging, features, service, substitutes, communication, buying decision drivers, ...).</i>
How do customer preferences impact pricing?	<i>Pricing is not or only informed by customer preferences in a marginal way</i>	<i>Changes in pricing set up are triggered by disruptions in customer behaviour</i>	<i>Proactive approach by assessing customer behaviour periodically and anticipating possible changes.</i>	<i>Customer behaviour and preferences continually monitored so they can dynamically adapt pricing.</i>

Pricing Strategy	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
Does your company have specific pricing goals ?	<i>There are no specific pricing goals defined.</i>	<i>General guidelines and KPIs on e.g. Margin Protection, avoiding price erosion, discount capping.</i>	<i>Specific pricing goals and KPIs per segment/market and targeted price positioning vs competition.</i>	<i>Pricing goals are linked, and visibly correlated, to commercial compensation plans and overall company shareholders goals.</i>
Do you have a list price strategy ?	<i>A list price is set by product management at product launch. No further defined strategies for transactional/ promotional/ special pricing.</i>	<i>List Pricing strategies exist for some products / brands and markets. The price strategy is yearly/quarterly reviewed but often still inconsistently applied within the company.</i>	<i>List Pricing strategies are developed for all major products / brands and markets - and aligned to overall business objectives and corporate strategy.</i>	<i>List Pricing strategies are pro-actively adapted on product lifecycle, changing market environment, based on frequent market scan insights, data analytics and competitive intelligence.</i>
How is your pricing strategy developed ?	<i>A basic pricing strategy and price positioning are centrally defined. Local sales organisation has a large 'freedom' to adapt the price strategy to local market conditions.</i>	<i>Pricing strategy and price positioning are developed by a small central Pricing Team (including mainly product management and finance).</i>	<i>Pricing strategy and price positioning developed by a central Pricing Team (including marketing, sales and finance) - and all commercial stakeholders are aligned around the vision.</i>	<i>In addition, top management is fully aligned with the pricing strategy and communicates/reinforces the price strategy towards to market.</i>
How do you use price segmentation ?	<i>Very basic product and customer segmentation (e.g., regional, application, industries) is in place.</i>	<i>More detailed sub-segments are identified, mainly based on analysis of historical transactional data. Also, the subsegmentation is used for product- and/or price-differentiation.</i>	<i>Detailed customer segments identified based on differing customer needs / behaviours and value drivers. Segmentation is regularly reviewed and adjusted based on market research and in depth data analytics.</i>	<i>Customer segmentation is dynamic, based on multiple and connected data sources and predicts customer behaviour.</i>
Do you handle product life cycle management as part of your pricing strategy ?	<i>Life cycle pricing is not a practice.</i>	<i>Limited management of product life cycles. Product portfolio pruning is done on yearly basis, but with very little alignment to the price strategy.</i>	<i>Product life cycle management installed as a yearly process, with clear integration and alignment of price strategy.</i>	<i>Product life cycle and pro-active fade-out strategies are embedded in the price strategy.</i>
How good is your value chain understanding ?	<i>There is no formal mapping of the market value chain (go-to-market) by country.</i>	<i>The market value chain (go-to-market) is mapped. Prices and margins are understood.</i>	<i>The market value chain is mapped and prices/margins are understood and regular updates are part of the pricing review. Corrective actions discussed with commercial strategy team.</i>	<i>Additionally new go-to-market approaches and/or monetization models are investigated/tested.</i>

Pricing Policy	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
To what extent is price guidance used ?	<i>Local sales organisation decide independently on their local market prices, with little or no alignment between the sales organisations.</i>	<i>Local sales organisation decide independently on their local market prices, but the pricing department has together with sales teams defined target price guidance with ceiling and floor prices per region.</i>	<i>Target price guidance by customer and product segments defined by the central Pricing Team based on input and discussions with the local sales teams.</i>	<i>Dynamic target price guidance by customer and product segments defined by the central Pricing Team based on input and discussions with the local sales teams - and in depth data analytics and forecasting.</i>
How consistent is your product portfolio pricing structure ?	<i>Price structure evolved historically with well known inconsistencies in portfolio prices.</i>	<i>Portfolio pricing inconsistencies have been reported and are discussed. Corrective actions have been decided and in progress. Price distance guidelines between the product lines have been decided but not fully implemented.</i>	<i>Portfolio price guidelines (price distance between the product lines) and both internal and market consistency (versus competition) fully deployed.</i>	<i>Additional, up & cross-selling initiatives are discussed and initiated for profit optimisation.</i>
To what extent is your product portfolio aligned with your market segments ?	<i>We try to sell everything to everyone (at every price), without product differentiation. We have a one fits all product strategy.</i>	<i>Product- and price differentiation has been installed (eg : good/better/best tiered offering) for price and margin optimisation.</i>	<i>Additional, segmented solutions have been developed for full value capturing (e.g. products & services bundled, product bundling, option bundling). Price bundling is installed based on willingness to pay within the segments.</i>	<i>Additional, we develop and introduce advanced Pricing & Business models: e.g. customer specific end-user solutions and price the output (performance or consumption based pricing, eg. pay/landing for aircraft tyres).</i>
How do you handle discounts ?	<i>Our discount policy is historically evolved and needs improvement to be aligned with the market strategy.</i>	<i>Discount policy is recently reviewed and optimised. The risk of cross-channel conflicts is minimalised, but there are still many unconditional discounts.</i>	<i>The discount structure is aligned with the market/price strategy and uniform. The full discount structure is based on functional discounts only.</i>	<i>Additionally conditions for granting / eligibility of functional discounts are systematically controlled and consequences management triggered.</i>
To what extent do you use price/value mapping ?	<i>Price/value mapping not in use.</i>	<i>Price/value mapping discussions have started between pricing team and marketing.</i>	<i>Price/value mapping research deployed per segment and aligned with marketing department.</i>	<i>Price/value mapping insights are actively steering the portfolio / product positioning and price strategy.</i>

Pricing Policy	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
To what extent do you understand price elasticity?	<i>Knowledge about the price change responsiveness is scattered in sales team.</i>	<i>Price elasticity is explored and understood via transactional price data analysis and internal qualitative discussions.</i>	<i>In addition, advanced research tools (as conjoint analysis, monadic design) and market tests are used to understand price elasticity & willingness to pay within segments.</i>	<i>Additionally usage of microsegmentation and cross-elasticities to model and forecast the impact of price changes on revenue and profits.</i>
To what extent do you understand willingness to pay?	<i>Value research is based on in-house historical data.</i>	<i>Increased analytical capability to gain more insights out of the data (e.g. statistical modelling).</i>	<i>Inside-out analysis is completed with external research to determine customer willingness to pay (e.g. survey, test markets, consumer panels,...).</i>	<i>Extensive set of scientific value analysis tools is available including price sensitivity research (e.g. micro-segmentation, conjoint analysis, behaviour-based modelling, market simulators).</i>
How do you mainly set prices?	<i>Price setting for new products is purely cost-plus with market price alignment.</i>	<i>Pricing is still mainly cost-plus, but prices (the cost +) are optimised based on better understanding of value components per segment.</i>	<i>Value based pricing (per segment) is used where possible based on good understanding of the value components, the price/value positioning and price elasticity.</i>	<i>Solutions pricing is installed, based on in-depth insight of the end-user benefits.</i>
Are there agreed price or margin levels for the sales and pricing department to work with?	<i>Price levels are not identified.</i>	<i>General agreed price levels / margins applicable on all products and customers (e.g. min 20% net margin, \$200\$/l gross margin, ...).</i>	<i>Floor and target prices are set on product group level.</i>	<i>Granular floor and target prices are linked to the strategy and the budget.</i>
How is stakeholder communication in relation to pricing organised?	<i>No developed corporate policies regarding pricing communication</i>	<i>Pricing changes are only communicated when they are in effect.</i>	<i>Proactive approach to pricing communication, mainly focused on customer impact.</i>	<i>The pricing communication strategy is fully developed (for customer, company, competitors and other stakeholders).</i>

Pricing Implementation	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
How do you handle price escalations ?	<i>Price escalation levels are not formally defined and not monitored. Authorisation process often not correctly followed or take a long time.</i>	<i>Price escalation levels formally defined and post-factum monitored. Authorisation process is still often not correctly followed and only visible after reporting.</i>	<i>Different levels of approval are predefined based on the size of the discount and the size of the deal, monitored and excessive escalations discussed in the pricing team. Price deviations are only possible in the system after formal authorisation.</i>	<i>In addition, price escalations are minimized and approvals are automated in an approval engine, reducing the amount of time required to approve/unapprove.</i>
How do you sell ?	<i>Sales is mainly selling on product features, product advantages 'trust us' or 'on price'.</i>	<i>Sales team is mainly selling on differentiating product features and product advantages. The value differentiators are documented and benchmarked versus competitive alternatives.</i>	<i>Sales teams get segmented value argumentations and are trained to defend the prices (on the question 'great product, but why is it so expensive'?). Value calculator exists for key account use.</i>	<i>Sales teams trained to sell end-user solutions based on an in-depth understanding of the business model of the client. Sales seen as a strategic partner that enables the customer to develop and implement the next generation of business model.</i>
How is a bid prepared for?	<i>Silo approach to bids which are not cross functionally coordinated. Lifetime contract profitability not well understood. Contract focus is on top line revenue for immediate product.</i>	<i>Coordinated approach to contract bid. While contract is only on single product, total customer value is considered and taken into account.</i>	<i>Multi disciplinary teams coordinate to prepare bids. Product offer combined with other products and services into single bid.</i>	<i>Multi disciplinary teams coordinate to prepare bids. Scenarios developed to predict range of contract profitability outcomes across full suite of products and services.</i>
How is list price maintenance handled ?	<i>List Price Updates are entered by multiple persons (often in Sales or Order Administration) without additional checks.</i>	<i>All price updates are based on authorized price change requests; login for system price updates are personal and correctness of price updates are reviewed by second person.</i>	<i>Exception list are system generated and flagged for price structure inconsistencies / business rule violations.</i>	<i>Scenario Planning of Price changes to simulate business impacts; automated implementation of selected scenario.</i>

Pricing Implementation	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
Do you have pricing KPI's ?	<i>Managers need to reach out for pricing reports at the right level of detail to provide actionable insights; only ad-hoc reports.</i>	<i>Price Management has defined vital Pricing KPI Reports but only shared ad-hoc with limited audience.</i>	<i>Vital Pricing KPI Reports exist, distributed and used in regular commercial excellence reviews.</i>	<i>Vital Pricing KPI Reports are part of the business planning process and reviews and part of a dashboard in a pricing/analytics tool.</i>
How do you manage contract compliance ?	<i>Random and unsystematic, no clear rules for condition deviations (e.g. cherry picking, pricing linked to volume commits)</i>	<i>Clear procedure and process to monitor condition adherence, but unclear/undefined consequence management</i>	<i>Clear procedure and process to monitor condition adherence including consequence management in order to avoid / reduce risk and margin exposure (e.g. switch to a functional discounting)</i>	<i>Additionally build-in mechanisms e.g. bundle checks or client supply process integration to avoid / prevent cherry picking and/or fraudulent usage of conditions</i>
Which type of contract terms are applied?	<i>Single set of contract terms, with variations requested by customers subject to ad hoc approval processes.</i>	<i>Single set of contract terms, with variations requested by customers with set approval processes according to customer usage profiles / value.</i>	<i>Multiple sets of contract terms aligned to customer segment, based on attractiveness to user and value impact, set approval process for variations.</i>	<i>Multiple sets of contract terms aligned to customer segment, terms used as strategic lever to justify price premium according to how customers use product.</i>
Do you have a price/margin improvement process in place ?	<i>Little guidance given on where greatest opportunities for improvement reside.</i>	<i>Some guidance given on accounts and/or products with greatest need for margin improvement (e.g., by comparing general margin metrics).</i>	<i>Customer and customer/product rankings based on opportunity for price/profit improvement available. Visibility of peer performance (customers, products). Ability to drill into any level of detail for root cause analysis.</i>	<i>Additionally tool generated targeted proposals for upsell & cross sell opportunities for profit improvements.</i>
Are your sales incentives aligned with the price strategy ?	<i>Sales incentives are mainly volume driven or on total revenues.</i>	<i>Sales incentives are a mix of volume/margin targets per product group or channels.</i>	<i>Sales incentives are based on a mix of volume/margin and net price realisation per segment/channel.</i>	<i>Additionally quota retirement is linked to price guidance realization - e.g. different accelerators by good / better / best price levels.</i>

Price Reporting	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
To what extent is your price waterfall visible ?	<i>Gross margin details available on product line and customer level</i>	<i>Detailed price waterfalls are installed for every customer. Net customer profitability is systematically monitored - cost to serve are allocated on assumptions.</i>	<i>Detailed price waterfalls are installed for every customer, net customer profitability is systematically monitored - and cost-to-serve per customer is based on activity based costing model</i>	<i>In addition, customer life time value is calculated/forecasted - and used to for deal making purpose.</i>
To what degree is your profitability visible ?	<i>No systematic monitoring of segment / channel / customer / product profitability</i>	<i>Segment / channel / customer / product profitability is systematically monitored - cost to serve is allocated on assumptions</i>	<i>Segment / channel / customer / product profitability is systematically monitored - cost to serve is based on activity based costing model</i>	<i>Additionally simulation reports on profit improvement potential available</i>
To what extent do you report win/loss analysis ?	<i>There is no systematically reported win/loss analysis.</i>	<i>Win/loss analysis information is centralised and available for sales/marketing/product mgt/pricing. But no formal review meetings installed.</i>	<i>Win/loss analysis information is centralised and available for sales/marketing/product mgt/pricing. Periodic review meetings and corrective action plans developed and implemented. Reactive mode.</i>	<i>In addition the win/loss information is linked to the Pricing system for automatic dynamic price guidance generation. Proactive mode.</i>
To which degree is the cost-to-serve of customers understood?	<i>No detailed understanding of the cost-to-serve. General cost allocation models are set up based on sales volume or revenue cost drivers</i>	<i>Cost-to-serve is understood until a certain level (e.g. region, distribution level).</i>	<i>Cost-to-serve is based on a full activitybased costing model.</i>	<i>Next to costing, pricing is also ActivityBased (e.g. pricing is generated for planned profit, based on customer demand and specific selling costs)</i>

Pricing Systems	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
How is your pricing infrastructure integrated ?	<i>Fragmented IT landscape, tools / systems not integrated, multiple data entry. Typically distributed and independent ERP systems.</i>	<i>CRM and ERP systems established but no integrated data exchange, independent / stand-alone Pricing-, Configuration- and Quoting systems.</i>	<i>Data exchange between front-end and back-end systems, partially integration of CPQ (Config-Price-Quote) into CRM and ERP infrastructure.</i>	<i>Centralized ERP and CRM systems; company-wide data and reporting structures; fully integrated Lead-to-Cash system infrastructure.</i>
How satisfied are you with the pricing data quality in your systems ?	<i>Pricing data is incomplete or not available (e.g., missing key variables such as rebates or cost to serve); data is scattered across different data systems; data requires significant manual "cleaning" and manipulation to be useable.</i>	<i>Data is mostly correct and complete but tends to be scattered across multiple data systems requiring regular integration to be useable.</i>	<i>Data (e.g. pricing analytics, profitability metrics) is mostly correct and complete but tends to be scattered across multiple data systems requiring regular integration to be useable; data is periodically updated and believed to be accurate enough f</i>	<i>Centralized databases for all relevant pricing data with key price, cost, market and segmentation information is in place (e.g., all pocket price elements, and important cost to serve, competitive price levels, terms, win/loss data); data is kept con</i>
What kind of technology / pricing tools are in place?	<i>No specific software in place, use of spreadsheets without system integration.</i>	<i>Pricing software in place, including quoting capability</i>	<i>Price management system, including decision support (e.g. analytics, benchmarking, simulation, ...) linked to the ERM system.</i>	<i>Dynamic pricing system, including price sensitivity linked to leading edge CRM application or other relevant business applications.</i>
Capability development & training	<i>Silo software usage with limited knowledge sharing.</i>	<i>Key users are trained in basic functionality. Mainly sales and pricing personnel are responsible.</i>	<i>Key users are thoroughly trained in all features of the pricing software technology. Able to extract standard reports</i>	<i>Key users and all relevant pricing stakeholders are able to add or extract any relevant information they need. Able to self serve bespoke reports</i>
How agile and responsive are the pricing systems ?	<i>Pricing system is too slow and not responsive.</i>	<i>Pricing/quoting is not fast enough due to poor software performance or lack of computing power.</i>	<i>Pricing system is highly responsive</i>	<i>Responsive pricing system with live-feed possibility (e.g. live link to currency markets).</i>

Price Reporting	Level 1 - Basic	Level 2 - Developing	Level 3 - Progressive	Level 4 - Advanced
To which degree are your sales orders tracked in relation to pricing?	<i>Price monitoring/tracking only appears when an error occurred or on request.</i>	<i>Price monitoring occurs periodically and on a consolidated level (e.g. monthly pricing reports).</i>	<i>For every single order or transaction the price is tracked and monitored (e.g. daily pricing KPI reports).</i>	<i>Monitoring is proactive (e.g. contracts can only be booked within a certain price range) and corrective actions are taken immediately.</i>
Which type of data is used in pricing decisions support?	<i>Only sales volume and revenue targets are considered when taking pricing decisions.</i>	<i>Pricing decisions support is based on internal costs, mostly historical or standard costs.</i>	<i>Next to historical costs, targets costs and utilisation factors are also taken into consideration.</i>	<i>Internal costs and external factors (e.g. competitor equivalence, switching costs) are considered.</i>
What is the frequency of customer data collection and analysis?	<i>Reactive approach to customer analysis, data collection is not always accurate (e.g. info on discount and the conditions) or up to date.</i>	<i>Customer data collection is done systematically (e.g. transactions) but the customer analysis is only available on request and needs processing time.</i>	<i>Customer data collection and analysis is available in timely buckets (e.g. weekly/monthly) but they are subject to closing periods and change dependent.</i>	<i>Real time ability to analyse customer data (e.g. data is collected as from the moment a transaction is started, changed or finalised).</i>
To what extent do you track competitive price information ?	<i>Competitive price tracking is done ad hoc and availability is scattered amongst sales.</i>	<i>Competitive price tracking is internally tracked via call reports, win/loss reports etc., but only limited analysis is used on an ad hoc basis for pricing decisions.</i>	<i>Competitive price tracking is systematically tracked by both sales and pricing research. Tools are in place to make competitive prices readily accessible.</i>	<i>In addition, sales is also tracking competitive insights (eg capacity) and informations is centralised.</i>
How do you react to pricing changes/strategies of competitors?	<i>Competitors prices are not responded to.</i>	<i>Responses are reactive but unsupported by a strategy (mainly matched to competitor moves).</i>	<i>Pricing response strategies are developed for the most predictable situations (and for the most important business units).</i>	<i>Full competitive response plan based on Competitor Pricing Analysis (price competition potential, competitors likely strategies, consequence evaluation).</i>

	Price Strategy	Price Strategy	Price Strategy	Price Strategy	Price Strategy	Price Strategy		
	Pricing Goals	List Price Strategy	Pricing Strategy Development	Price Segmentation	PLC Strategy	Value Chain		
Case Company	2,40	2,60	2,20	2,40	2,00	2,00		
EPP Current	2,20	2,40	2,10	1,90	1,90	1,80		
EPP Target	3,30	3,60	3,40	3,20	3,20	3,20		
	Price Policy	Price Policy	Price Policy	Price Policy	Price Policy	Price Policy	Price Policy	Price Policy
	Pricing Guidance	Price Portfolio Consistency	Price Portfolio Offering	Discount Structure Policy	Understanding Price / Value Positioning	Understanding Price Elasticity	Understanding Willingness to Pay	Price Setting Methodology
Case Company	2,80	2,00	2,80	2,40	1,80	1,80	1,60	2,40
EPP Current	2,20	2,00	2,00	2,10	2,00	1,60	1,70	2,10
EPP Target	3,30	3,30	3,20	3,30	3,30	3,00	3,00	3,20
	Price Implementation	Price Implementation	Price Implementation	Price Implementation	Price Implementation	Price Implementation	Price Implementation	Price Implementation
	Governance	Selling Process	List Price Management	Margin/Profit Improvement Process	Contract/Agreement/Deal Condition	KPI's Actionable	Sales Incentives	
Case Company	2,60	2,00	2,00	1,80	2,40	2,40	2,40	
EPP Current	2,30	1,90	2,10	2,00	2,00	2,00	1,80	
EPP Target	3,40	3,30	3,20	3,30	3,20	3,40	3,00	
	Price Reporting Waterfall	Price Reporting Profitability	Price Reporting Win/Loss	Price Reporting Competitive				
Case Company	1,80	2,40	1,80	1,80				
EPP Current	1,60	2,00	1,80	1,80				
EPP Target	2,90	3,20	3,20	3,20				
	Pricing Organization	Pricing Organization	Pricing Organization					
	Pricing Organization	Capabilities & Skill	Pricing Maturity Vision					
Case Company	2,20	2,40	2,80					
EPP Current	2,10	2,10	2,00					
EPP Target	2,90	3,20	3,10					
	Pricing Tools and Systems	Pricing Tools and Systems	Pricing Tools and Systems	Pricing Tools and Systems				
	System Integration	Pricing Systems	Sales Enablement	Data Quality				
Case Company	2,20	2,00	2,00	2,00				
EPP Current	2,10	2,00	1,90	2,20				
EPP Target	3,30	3,20	3,10	3,60				

Source: European Pricing Platform (2017)

Key findings from current state analysis

Organization	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
Region 1 / Organization 1	The current level of customer segmentation especially in the B2B segment should be distributed to a more granular level. This would enable price discrimination which allows the stores to capture more value from different customer types	Existing discounting model is a large threat to the designed changes in recommended retail price levels. However, the discounting decisions (as well as all final price decisions) are made by the stores thus making it hard for the case company to influence final decisions. Means to secure the stores' earnings when suggested price levels change need to be considered	<p>1) Price calculations are mainly done on a cost-plus basis. The amount of value-based pricing should be increased.</p> <p>2) Cost updates between the pricing adjustment periods are done on an ad-hoc basis. Pricing should ensure that updates are clearly communicated and taken into account.</p> <p>3) There is no visibility to the actual price management process in the stores. The pricing capabilities and actions in stores are different.</p>	Pricing metrics and KPI's need to be defined and roles and responsibilities appointed. Designed and chosen metrics and KPI's have to be supported and easily available in systems	Management needs to decide how pricing performance should be tracked and if a pricing steering committee or relevant entity is necessary	<p>1) Systems and tools are not ideal for managing pricing with this amount of complexity</p> <p>2) Reporting functionalities are not on an adequate level compared to the growing need for price-related information and analyses</p> <p>3) Data is scattered in multiple systems and requires a lot of manual handling</p>

Organization	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
Region 1 / Organization 2	Discount group pricing prevents the company to maximize its revenue and margin because the discounts for different products in the same discount group have to be the same, e.g., all light bulbs are sold with the same discount level to customers in the same customer segmentation. Pricing the products individually would enable the company to gain more margin in less price sensitive products.	<p>1) Discount management would benefit from more control. Different options are available, e.g., limiting the maximum discount levels by role or establishing discounting policies which clearly indicate the cases when one-time discounts can be given. The focus should be on manual pricing, but customer-specific pricing policies should also be documented and applied to practice.</p> <p>2) Possibilities to move revenue from manual pricing to more lucrative pricing types should be investigated. Unwarranted discounts need to be separated from project sales.</p>	<p>1) Current management of price discrimination is not supporting the sales of known value items for all segments, e.g., work gloves are important to all customers and should be priced similarly for all to drive additional sales.</p> <p>2) The pricing process has not been thoroughly documented, but work descriptions exist. The process should be documented, and it should also reflect the cross-sales issues with other businesses.</p>	Margin is lost because logistic charges do not reflect or cover the costs. Creating a waterfall report would help identify cases where improvements are necessary.	Product managers need more training in business processes and tools to be able to manage increased responsibilities.	

Organization	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
Region 2 / Organization 1	The case company needs a documented pricing strategy along with policies and processes. The global pricing policy documentation could be used as a starting point and should be aligned with local business strategy.		B2B customer price lists could benefit from modeling customer behavior and increased price discrimination. At the moment the five different price lists are only representing five different price levels calculated by margin yield.	The design of pricing metrics and KPIs needs to support both organizations with common metrics and measurement	<ol style="list-style-type: none"> 1) Resources in the pricing team should be reviewed, and enough capacity should be available for both organizations to ensure that global development actions are progressing. 2) Training of cross-functions between the organizations should be designed and organized 	<ol style="list-style-type: none"> 1) New pricing tool has been implemented to help manage customer prices and cost changes. Requirements from other organizations should be investigated to find similar needs and decide on further development of the tool. 2) New rule-based pricing system will help decrease the amount of pricing errors and pricing inconsistencies. The system requires more resources than currently is allocated.

Organization	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
Region 2 / Organization 2	<p>1) The organization is undergoing a large business transformation, and a new business strategy is being built. Pricing should prepare to support the strategy design by building different analysis and suggestions.</p> <p>2) Pricing documentation was not available, or it was not up to date. Missing and outdated documentation can increase pricing errors and confusion of pricing responsibilities and pricing authority.</p>	<p>1) Pricing structure between similar customer segments should be investigated to ensure that prices are aligned and calculated according to the value for each customer segment.</p> <p>2) Amount of sales from manual pricing is high. Increasing the use of system prices will improve the overall price reliability and free time from sales personnel. Unwarranted discounts should be separated from project sales.</p>	<p>Cross-sales processes should be designed and implemented. Price management is a critical part of securing the trust of customers.</p>			<p>No tools to manage list and customer prices. Utilization of the tools used in Finland should be investigated.</p>

Organization	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
Region 3 / Organization 2		<p>1) Capability to respond to competitors price changes is essential. Required decision points and possible actions should be clearly described.</p> <p>2) Usage of manual pricing is restricted to the customer responsible seller, but there is no documentation of the different scenarios when manual prices could or should be utilized. A standard approach to manual pricing might improve price consistency even more.</p> <p>3) The amount of manual pricing is much lower than in other regions. The large amount of sales from agreements can explain some part of it, but overall the best practices should be reviewed in all regions.</p> <p>4) Discounts in project sales are aligned with the deal size. A similar approach could be utilized in other organizations.</p>	<p>1) List price levels are reflecting the competition or market prices instead of being fixed. This approach should be discussed with other regions.</p> <p>2) Logistic costs and cost differentiation by region has been documented in customer agreements. Most countries are struggling with the recovery of logistic costs and could benefit from including them in the agreements and ensuring that deviations in agreements are tracked.</p>	<p>1) Price simulations are done to ensure that target margins are achieved when customer-specific prices are calculated.</p> <p>2) Margin targets by customer segment could be utilized in other organizations.</p>	<p>1) Pricing team is highly involved in cooperation with commerce and sales teams, which simplifies communication and eases the discussion of required improvements.</p> <p>2) Pricing team monitors that identified pricing errors and issues, e.g., sales with too low margin are fixed.</p>	<p>1) Most of the large customers are using different cost calculators, and their purchase processes are more advanced than the sales processes of the case company.</p> <p>2) Two new pricing tools have been developed to help manage the purchasing power of different customer chains. Need for these tools in other countries should be checked.</p>

Organiza- tion	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
Region 4 / Organization 2		Experiences from discount management by restricting the discount rights of sales personnel could be utilized in other countries	<p>1) The amount of manual sales compared to other countries is very high. Defining limitations for a quote to receive improved prices will help decrease the bidding workload. Understanding and measuring the win/loss ratios of offers will help improve overall margin.</p> <p>2) Projects should be defined. At the moment it is unclear when a quote is actually a project. Identifying and separating projects from regular quotes should increase the quality and success rate for project offers because the sales personnel can focus more on them.</p> <p>3) One development issue raised in Poland is the capability to monitor competitors' prices. This is problematic especially in the B2B trade as the final price for different customers is often not displayed publicly. However, monitoring the base prices of retailers could be useful.</p>	<p>1) Logistic costs are hidden in product prices – while this is the case in other countries as well, the problem is largest in Poland. If this cannot be adjusted another report to follow up on customer profitability should be available.</p> <p>2) KPI's and metrics have been designed to monitor important performance issues. Some of these could be utilized globally, e.g., the share of sales on different order types.</p>		

Organization	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
Region 5 / Organization 2	Design and documentation of pricing strategy, policies and processes should be generally improved		Further investigation of customer-specific price management in Baltics and assessment of practices should be done	<p>1) Improved reporting tools are required to provide better insights to, e.g., customer profitability</p> <p>2) Sales personnel's incentives are mainly based on revenue and volume. A review of current incentives should be done, and preferably they should be shifted towards net margin.</p>	Pricing does not have enough resources to increase overall pricing performance, pricing capabilities and utilization of new tools	Improved pricing systems are required to support pricing decisions and actions

Organization	Pricing Strategy	Pricing Policy	Pricing Process	Pricing Metrics and KPIs	Organizational structure	Pricing systems
<p>Pricing maturity assessment</p>	<p>1) List price strategy has not been defined in all countries. 2) The maturity of overall pricing strategy varies. 3) Level of customer segmentation varies. 4) Product life cycle management is not considered in pricing strategy. 5) The market value chain is not thoroughly understood or mapped. 6) Understanding customers willingness to pay could be improved.</p>	<p>1) The product pricing structure has inconsistencies. 2) Discount policies need improvement and are not aligned with the market. 3) Contract compliance is not monitored.</p>	<p>1) Price/value mapping is not a practice 2) Price elasticity is not considered in pricing. 3) Price setting capabilities differ in organizations. 4) List price updates are not managed consistently.</p>	<p>1) Pricing reports are mainly done ad-hoc, and system capabilities are limited 2) There are no price waterfall reports available 3) Competitive price information is tracked ad hoc and is not available to sales.</p>	<p>1) Sales teams' capabilities to sell products based on value instead of price is limited. 2) Win/loss analysis of quotes is not systematic. 3) There are different levels of pricing organizations - from no organization to teams managed by pricing director. 4) More training in pricing should be provided to pricing and sales personnel. 5) There are no long-term plans to develop pricing capabilities.</p>	<p>1) Pricing infrastructure is fragmented to different independent systems. 2) There are no specific pricing systems used, prices are calculated in spreadsheets. 3) Capabilities to use and understand current systems should be improved. 4) Pricing data is incomplete or scattered in different systems.</p>

